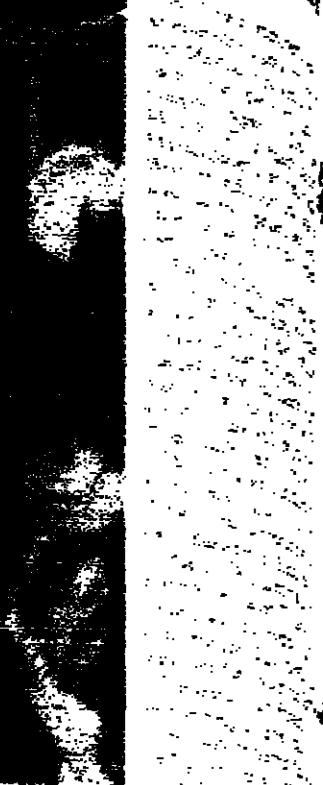




Spellbound



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STAGE
TODAY
Role of a Lifetime, Page 9

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Asia's Class of '99 Finds No Room in Workplace

Crisis Slams Many Doors but Opens Others As Students Begin Thinking in New Ways

By Mary Jordan
Washington Post Service

SEOUL — It was early evening at the Dusk Hof, a dark little bar near Sogang University, and a few of the "pre-unemployed," as South Korean college students call themselves these days, nursed cheap draft beers at a table in the back.

"Everyone's red-eyed from physical or emotional exhaustion, stress and depression," said Park Hyang Kim, 23, who has taken the winter semester off to postpone her graduation into a barren job market. "I'm very worried that I might be stuck without a job for life."

South Korean students are deferring graduation, scrambling to get a spot in the military, borrowing money to get unwanted graduate degrees, emigrating — anything to avoid graduating into a workforce with no place for them. Almost 2 million workers have been pushed out of work this year, and college students see the job market backed up like a clogged drain for years to come.

"Finding a job is harder than pulling a star out of the sky," said Cho Eun Young, a Korean member of Asia's battered Class of '99.

College students from Jakarta to Tokyo are entering the meanest job mar-

ket on record as Asia's worst economic year in modern history draws to a close. Tens of millions of once-comfortable lives are heavy with hardship. Many of Asia's poor are poorer and its middle class has been hollowed out as a region that once seemed to spout unlimited wealth and jobs continues to bleed both.

But not all the changes are necessarily bad. In Indonesia, students say they are invigorated by the end of the 32-year reign of former president Suharto and a growing sense of people power. In Japan, crumbling respect for Japan Inc. has left college students feeling, as a would-be magazine editor, Youichi Matsuda, said, "less societal pressure to be a dark-suited company man."

Whether it is opening doors or slamming them shut, the 1998 Asian economic crisis is shifting into 1999 Asian identity crisis. As stock markets and currencies show signs of stabilizing, the economic crisis is giving way to even more urgent social and political crises that are reshaping Asia.

Nations are now picking through the economic devastation, confronting fundamental questions: What should be salvaged from the old Asian way, and what must be discarded? How much more like the West will Asia's markets and politics become? What will be the legacy of this calamity?

The Class of '99 embodies the coming change. Indonesian students, outraged at their autocratic government, are risking their lives on a democratic future. Japanese students say that the day their economy started falling apart, some Japanese lives started to improve. Despite record unemployment, the economic crisis has forced openings in the economy and more foreign competition, resulting in more diverse job opportunities for many Japanese students.

South Korean students fear their careers will be irreversibly stalled between the dismantling of the old Korea, dominated by a handful of huge con-

4 Hostages Are Killed As Yemen Ends Siege

Compiled by Our Staff Photo Dispatches

SAN'A, Yemen — Four hostages were killed on Tuesday when Yemeni security forces stormed a kidnappers holding 16 Western tourists and freed the remaining hostages, a Yemen official said.

"The operation resulted in the death of four Britons, two women and two men," the official said. "Three hostages were injured: one American woman, a British man and an Australian man."

In London, however, the Foreign Office said only three British hostages had been killed. Foreign Secretary Robin Cook said that he understood the fourth hostage to die was Australian.

The kidnappers were Islamic extremists who belonged to the Hadi' tribe. The official said troops had stormed the kidnappers' stronghold after reports that they had killed two of their captives.

The operation started after abductors started killing hostages, the Yemeni official said, adding: "They killed two, and then our forces stormed them to prevent an escalation of the situation and the killing of more hostages."

He said that three kidnappers were killed and three wounded.

The official said that nine of the freed hostages and two bodies had arrived at a hotel in Aden, and that the others were on their way to the southern port city. The names of the hostages were not immediately available.

The kidnapping occurred Monday near the southern town of Maridiyah, about 200 kilometers (120 miles) south of the capital, San'a.

The hostages included 12 Britons — six of them women — two American women and two Australian men.

They were taken when 18 men ambushed a convoy of five vehicles in which the tourists had been traveling and opened fire on their police escorts.

During the ambush, the British tour leader and a Yemeni guide escaped and sought help.

The kidnapping of tourists by tribes is a commonly used method in Yemen to gain such concessions from the government as new roads, water supply or clinics. The hostages are generally released unharmed.

But the latest incident marked the first time an abduction had been carried out by Islamic extremists. Security officials said the kidnappers belonged to Islamic Jihad, many of whose leaders fought in Afghanistan and are believed to have connections with Egyptian Muslim radicals.

Earlier Tuesday, Yemeni officials

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Khieu Samphan speaking Tuesday in Phnom Penh, with his fellow Khmer Rouge leader Nuon Chea.

A Khmer Rouge Leader Is 'Sorry'

Khieu Samphan, Back in Phnom Penh, Urges Nation to Forget Past

By Seth Mydans
New York Times Service

PHNOM PENH — A top leader of the Khmer Rouge muttered an apology Tuesday, saying he was "sorry, very sorry" for the suffering he had caused the Cambodian people.

His apology, in English, came only after aggressive questioning at a news conference. At the insistence of Cambodian reporters, he repeated it in the Khmer language: "Kryom som tot."

But the leader, Khieu Samphan, repeatedly urged both Cambodians and foreigners to "let bygones be bygones" regarding the deaths of more than a million people between 1975 and 1979, when he was the Khmer Rouge head of state.

Mr. Khieu Samphan, 67, who was welcomed back to society Tuesday with an embrace from Prime Minister Hun Sen, said Cambodia should focus on the problems of the present and "forget the past."

A second high-ranking defector, Nuon Chea, 71, was also asked if he had an apology to make to his countrymen. "Actually, we are very sorry not only for the lives of the people of Cambodia but even for the lives of all animals that suffered because of the war," he said.

The two elderly leaders, who gave up their struggle four days ago, flew here Tuesday morning by helicopter from the western town of Pailin, where they have begun new lives as self-proclaimed "ordinary citizens."

It was the first visit here by Mr. Nuon Chea since Khmer Rouge times, when Phnom Penh was a dead city, emptied of its citizens by his absolutist theory of a primitive agrarian revolution.

Cambodians who heard him noted that he referred specifically to Cambodia's long civil war, not to the ravages of the Khmer Rouge rule, when nearly a fourth of the country's population was killed or died of starvation, disease and overwork.

Mr. Nuon Chea, known as "Brother Number Two" to the late Khmer Rouge leader Pol Pot, was the architect of the movement's forced evacuation of the cities in 1975. He later had command responsibility over a wave

See APOLOGY, Page 8

For Germany, an Iconoclastic Law-and-Order Man

By Roger Cohen
New York Times Service

BONN — From the neck down, Otto Schily, Germany's interior minister, is very much the bourgeois gentleman: pocket watch, tailored suit, elegant cuff links, somber tie. But look up at his mischievous eyes and unruly hair, and some of the contradictions of the man and his country begin to come into focus.

Mr. Schily, who represents law and order in this most ordered of nations, is an iconoclast, a defender of the revolutionary Red Army Faction during the 1960s, celebrated lawyer in the 1970s,

founder of the environmentalist Green Party in the 1980s, tough Social Democrat in the 1990s and bon vivant with a love for Tuscany throughout.

Germany is changing. In place of the monolithic figure of Helmut Kohl, with his taste for sausages and his unwavering dedication to Europe and the trans-Atlantic alliance, a new class of Germans has come to power. They are more checkered in their pasts, more nuanced in their allegiances — and more inclined, like Mr. Schily, to love olive oil than wurst.

Germany is no longer a prisoner of its past. It is learning, fitfully, to relax and is now full of people like Mr. Schily, who have walked a long German road to emancipation.

To allies, including the United States, this change is disorienting. It involves a departure from the scene of the predictable German — solid, solemn, unpredictable. But to Mr. Schily and his colleagues it is a sign of democratic maturity.

At the age of 66, the interior minister is the doyen of the new "Red-Green" government of Chancellor Gerhard Schroeder. He is also, in his long journey from protest to power, a typical figure.

Like the chancellor, a former Marxist, and like Foreign Minister Joschka Fischer, a revolutionary agitator in the 1960s, Mr. Schily once flirted with the far left.

"I am not of the 1960s generation," Mr. Schily said. "I had a steady job as a lawyer and a family by then — but I was drawn in. And I think that even if 1968 was a failure in the end, it contributed decisively to the birth of civil society in Germany."

And what, then, was the Germany that predated this civil society? "For a long time after the war," he said, "we had the

See GERMANY, Page 5

Hazed and Hating It: Russian Draftees Flee Army



A young deserter who fled to St. Petersburg rather than risk ending up in a 'zinc box,' or coffin.

By Daniel Williams
Washington Post Service

ST. PETERSBURG — Volodya, with a boyish fuzz on his lean young man's cheeks, detailed his ordeal in slang he picked up during a short, brutal stay in the Russian Army.

"Grandfathers" — that is, senior soldiers in his unit — had "hung" him with an arbitrary debt. When he didn't pay, the grandfathers taught him to "fly" — meaning they knew him with such force that he was lifted off the barracks floor.

Fearing he would end up in a "zinc box," Volodya deserted, fled to St. Petersburg and hid in the anonymous high-rise neighborhoods of the city's periphery. Zinc box is what soldiers call the metal coffins used for military dead.

Volodya has joined the legion of deserters and draft dodgers on the run from the army, a once-proud institution that has become a chamber of horrors spread across 11 time zones. Unrestrained hazing and material deprivation await youths who answer their country's call to serve. Killings, suicides and depraved forms of abuse are the backdrop of a soldier's life.

The beatings aggravate already inhumane conditions brought on by Russia's seven-year economic tailspin and deep cuts in military spending. Barracks are often unheated, and soldiers go without pay for months. Units trained for tank warfare sometimes pick potatoes to make money. Corrupt generals use their troops as free labor to build country homes or to maintain their properties.

See RUSSIA, Page 5

In Microsoft Suit, Gates Sees the Ghost of IBM Past

By Elizabeth Corcoran
Washington Post Service

WASHINGTON — In September, Bill Gates, chairman of Microsoft Corp., and his wife, Melinda, took several dozen friends on a vacation train trip across Montana, Wyoming and Colorado. It was, predictably, a first-class affair — private rail car, fine food and some of the most beautiful scenery in the country.

During dinner at a restaurant where the party proceeded, a couple of strangers joined the group and proceeded, to most everyone's amazement, to mer-

cially tease the hosts. "Hey, aren't you that computer guy Steve Jobs?" one of them demanded of Mr. Gates. In fact, they were actors, brought in as entertainment by Mr. Gates and closely coached by him on what to say.

As the world's richest person, Mr. Gates is accustomed to controlling many of the events around him. But in the three months since that carefree rail trip, he has found himself unable to blunt the assault that the federal government has launched against his company. Day after day, in the antitrust trial in a Washington courtroom, Justice Department lawyers have been laying out a case for Microsoft as a danger to the U.S.

software industry, with Bill Gates as the ringleader.

As the trial has progressed, no one has felt the lash of those charges more than Mr. Gates. In interviews, close friends and associates paint a portrait of a man deeply stung by the accusations against him and his company, convinced that he has done nothing wrong, and simmering with anger that the government will not accept his explanations and back off. In contrast to how he has typically run his business life, he is reacting more with his heart than with his head, they say.

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AGENDA

King Hussein Leaves Hospital

AMMAN, Jordan (AP) — King Hussein of Jordan has left a hospital in the United States where he was treated for more than five months for cancer, his younger brother, Crown Prince Hassan bin Talal, said Tuesday.

King Hussein, 63, was hospitalized at the Mayo Clinic in Rochester, Minnesota, on July 14 suffering from cancer of the lymph glands.

Threat to Freetown

FREETOWN, Sierra Leone (AP) — A top rebel commander Tuesday said his forces would attack Sierra Leone's capital within two days if the government failed to agree to talks to be mediated by the Organization for African Unity.

The Dollar

New York Tuesday @ 4 P.M. previous close

DM 1.6725 1.676

Yen 115.465 115.86

FF 5.6097 5.6281

Pound 1.6827 1.6762

Dollars per pound

The Dow

Tuesday close percent change

+ 94.23 9,320.98 + 1.02%

S & P 500

+ 16.28 1,241.77 + 1.33%

Nasdaq

+ 0.94 2,181.24 + 0.04%

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Race to the Altar / Blurring Lines

Mixed Marriages Give U.S. Melting Pot New Life

By Michael A. Fletcher
Washington Post Service

MONTCLAIR, New Jersey — Some see it as a demographic shift that will irreparably tear at the fabric that binds Americans, this vast influx of immigrants who for more than two decades have been streaming across the nation's borders. President Bill Clinton appointed a commission to help the country absorb its new multicultural citizenry, a flurry of new books have questioned the very premise of the fabled melting pot, and several social historians are now asking whether the country is on the verge of becoming a balkanized nation with shared geography but no common identity.

Yet the mounting fears of ethnic divide are being answered by a force of potentially equal might: the enormous rate at which couples of different races and ethnicities are marrying one another.

Since 1960, the number of interracial couples in the United States has increased more than tenfold, to 1.6 million, including marriages involving Hispanics. Such unions now account for about 4 percent of U.S. marriages, a share that is expected to mushroom in coming years and that is already offering powerful evidence that many Americans are jettisoning old prejudices as never before.

"I think we are at the edge of a major change in how we think of race in the United States," said Reynolds Farley, a demographer with the Russell Sage Foundation. "Potentially, race could lose much of its meaning in this country, much like ethnicity has" for whites.

In open-minded suburbs like Montclair, outside New York City, mixed-race couples like Elizabeth Seaton and Sieuze Frankfort are so common that they rarely turn heads. The school system here has even started offering seminars to address the concerns of multiracial children.

Mr. Frankfort, the product of a union between his Indonesian mother and Dutch father, said he knew his family would readily accept his new girlfriend, back when they started dating. But Ms. Seaton's family was another matter.

"I was nervous," she said. "My father has attitude. He carries on about other ethnic and racial groups, particularly black folks and Jews."

But when Mr. Frankfort finally met her father, things turned out fine. And for the 18 years the couple has been married, Mr. Seaton's father, like the rest of her family, has been nothing but warm toward her husband.

Not only are interracial unions, and the children they produce, complicating predictions about the future racial makeup of the United States, they are calling into question widely understood notions of race.

The rates of intermarriage among many minorities now rival those of second-generation immi-



Interracial unions like that of Sieuze Frankfort and Elizabeth Seaton of Montclair, New Jersey, account for 4 percent of U.S. marriages and are expected to mushroom.

grants whose parents came to America in the decades near the turn of the century. Intermarriage among the descendants of those early immigrants over time all but erased ethnic stereotypes that once defined white Americans. While white ethnicity was once a salient feature in American life, the 1990 census found that in only one in five white couples did both partners share the same ethnic heritage.

"Nobody talks about balancing a political ticket with an Irish or an Italian anymore," Mr. Farley said.

Interracial relationships still stir racist passions. In 1992, for instance, the volunteer coordinator of Pat Buchanan's Republican presidential campaign in New Jersey was removed after he compared mixed marriages to the cross-breeding of animals.

And it was only three decades ago, in 1967, that the Supreme Court ruled anti-miscegenation laws unconstitutional, wiping those statutes off the books in Virginia and 15 other states. But the sentiments that undergirded those laws are increasingly giving way to interracial tolerance.

That is likely to be even more true as the nation's Hispanic and Asian-American populations continue to grow. Many of the new immigrants come from countries with mixed-race traditions. Some analysts say that makes them more open to interracial marriage, particularly to whites.

TODAY, ALMOST one-third of U.S.-born Hispanics ages 25 to 34 are married to non-Hispanic whites. In addition, 36 percent of young Asian-Pacific-American men born in the United States marry white women, and 45 percent of U.S.-born Asian-Pacific-American women take white husbands. The vast majority of Native Americans also marry whites.

Glenn Shimamoto, a second-generation Japanese-American who grew up near Pittsburgh but now lives in Montclair, says his race was only a factor on the rare occasions when he was confronted with racist name-calling and insults from "the small group of

guys who were known for that."

Otherwise, he saw his life as largely indistinguishable from those of his white neighbors.

"Virtually all my dates would be with white girls, save for the enforced date or two with the other Japanese student who may have been around," said Mr. Shimamoto, now 46. "But I remember no social or family pressure to date or not date girls of a certain race."

He met his future wife, Belinda, who is of English, Irish and Scottish heritage, while they were graduate students at the University of Pennsylvania.

In the 17 years the couple has been together, they say they have lived peacefully, mostly in white, suburban neighborhoods.

"It's funny," said Belinda Shimamoto. "But it probably was a bigger deal when my Irish Catholic mother married my British Protestant father."

Yet if a picture is beginning to emerge of racial and ethnic melding, one group is noticeably absent: blacks. Rates of interracial marriage involving blacks, while increasing, remain far lower than those of other racial minorities. Fewer than one in 10 black men and one in 25 black women ages 25 to 34 have white spouses, according to the 1990 census.

SOME OBSERVERS say they fear that the emerging portrait points to a future in which many blacks will still find themselves on the other side of a color line. But rather than separating them from whites only, this line could separate blacks from everyone else.

"In the America of the middle of the next century it might look like the race problem is a black problem and these other groups maybe followed some other kind of model into some kind of pluralistic acceptance," says Roderick Harrison, a Census Bureau demographer.

Mr. Harrison and others say the differences in intermarriage rates between blacks and other minorities illustrate the fact that disproportionate numbers of blacks remain outside the American mainstream.

When it comes to housing, blacks are the most segregated of the nation's racial minorities, "by orders of magnitude," said Rebecca Blank, a member of the presidential Council of Economic Advisors, which compiled a report on racial dynamics. On average, blacks live in neighborhoods that are 60 percent black, while Hispanics and Asian-Americans tend to live in far more diverse neighborhoods.

When you are talking about Asian or Hispanic middle classes moving into neighborhoods, you don't see the same tripping mechanism causing whites to move out that you see with blacks," Mr. Harrison said. "These things suggest that the black-white color line is still with us, and that the integration of blacks is going to be a different story than the assimilation of Asians and Hispanics."

TRAVEL UPDATE

Watch Over Revelry On Champs-Elysees

PARIS (AP) — The police announced tight security measures and traffic and parking ban on and around the Champs-Elysees, where half a million revelers are expected to usher in the new year on Thursday night.

The increased security was prompted mainly by an incident in July during celebrations of the French victory in the World Cup of soccer. About 150 people were injured when a car went out of control on the Champs-Elysees.

On Thursday, traffic will be banned from Place Charles de Gaulle to Place de la Concorde from 10:30 P.M. to 5:00 A.M. Parking will be banned on adjacent streets starting Thursday morning. The number of police reinforcements was not given. Last Dec. 31, about 1,500 police officers were deployed along the avenue.

Entrance Fees Raised At Vatican Museums

VATICAN CITY (AP) — The Vatican museums, which include the Sistine Chapel, are raising entrance fees

from 15,000 lire (\$9) to 18,000 lire.

The agency said Tuesday that the higher ticket prices would go into effect Saturday, the first day in 1999 when the museums will be open. Entrance will remain free on the last Sunday of every month, unless those days correspond with Vatican holidays.

Entrance is also free on Sept. 27, World Tourism Day.

TWA Back in Form Following 'Sick-Out'

ST. LOUIS, Missouri (AP) — Trans World Airlines says it is back on schedule after a work action by flight attendants that forced the airline to cancel nearly 200 flights and disrupted the travel plans of thousands of passengers over the Christmas holiday.

The largest number of flight cancellations, 90, came on Christmas Day, Friday, stranding thousands of travelers

at TWA's hub at Lambert Airport, which serves St. Louis. Flight attendants disrupted service by calling in sick.

Passengers who were stranded will get frequent flyer miles, travel vouchers and a letter of apology from the airline, a TWA spokesman, Jim Brown, said.

Workers at the Arc de Triomphe voted Tuesday to continue a strike that has closed the Paris monument to the public since Saturday, but they said they hoped a dispute over staffing would soon be resolved in ongoing talks with the Culture Ministry.

Dense fog cut visibility in the San Francisco Bay area to 100 feet or less, disrupting air travel Monday for thousands of people who were hoping to reach San Francisco, Oakland and San Jose, California. Forecasters said the severe fog would last through Wednesday.

Atmospheric front to clear by Friday.

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FRANCE	F 520	570	50%	550
GERMANY	DEM 150	170	50%	550
GREAT BRITAIN	£ 52	57	50%	550
HONG KONG	HKS 728	800	55%	550
ISRAEL	NIS 728	800	55%	550
ITALY	L 150,000	162,000	55%	550
JAPAN	¥ 26,000	26,150	55%	550
MALAYSIA	RM 208	105	45%	550
NETHERLANDS	NL 170	180	55%	550
NORWAY	NOK 936	450	50%	550
SINGAPORE	S\$ 161	82	49%	550
SPAIN	PT 130,000	135,000	55%	550
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In the Land He Died For, A Rain Forest Martyr Lives

By Diana Jean Schemo
New York Times Service

XAPURI, Brazil — Handwritten signs hang from the ceiling in the simple shack where Chico Mendes lived and died.

"These were the clothes he wore the day he was killed," says one sign, swaying over a pair of shorts and a checked shirt that his widow, Izamar, has laid out on their bed. "In the hall, I held my children and Izamar in my arms," said another.

"I fell here. I realized that I didn't belong to this world anymore."

In his life, Francisco (Chico) Mendes, outspoken defender of rubber tappers and the Amazon rain forest, cut a larger figure around the globe than he did around the corner. In his final days, he told his family and friends about unrelenting death threats from local ranchers. Despite his international contacts, he knew that police officials in his home state of Acre would do little to protect him.

His murder at the age of 44 — 10 years ago this month — brought even more international attention to his cause. Now, Mr. Mendes' Workers' Party has won control of City Hall and of the governor's palace in the state capital. Both of the senators who represent the state in the nation's capital are from the Workers' Party and millions of acres of rain forest have been reserved for the rubber tappers and nut gatherers whom Mr. Mendes defended.

"Ten years after his death, Chico Mendes has come to power," said Antônio Alves, a local journalist who followed his career.

The genius of Mr. Mendes, say those he left behind, was his decision to reach out to the environmental movement abroad for support for his rural labor movement.

While land reform remains a violent battle between ranchers and rural workers, the environmental ideals advanced by Mr. Mendes have become common currency, at least rhetorically, among government officials. And the reserves he envisioned to extract products from the land without destroying it now exist for other products, from hearts of palm to timber.

Still, all is not well. The lives of the tappers are as wretched as ever, with the price of rubber and other commodities dragged down by the deep recession in Asia, to a lower point than when Mr. Mendes was buried.

His widow, Izamar Gadelha Mendes, now 34, is in open warfare with her party, and the two sides hurl bitter accusations about exploiting, and betraying, Mr. Mendes' name. The man in jail for his murder remain bitter and blame the rubber tapper for inviting his own death.

On Friday, the new political leaders of Xapuri and Acre will be sworn into office. Many of them stood together with Mr. Mendes when he organized his famous "empates," or stalemates, of rubber tappers — who formed human walls in the jungle to block the tractors, chain saws and fires of deforestation.

Senator Marina Silva, the daughter of



Before his murder in 1988, Chico Mendes founded a rural labor effort.

a rubber tapper, said the centrist parties had been discredited with assertions of corruption and mismanagement. The Workers' Party had been building a political base in Acre for more than two decades, but it appears to have come in from the political margins only after Mr. Mendes's killing.

Some of the tappers came here at the turn of the century and others during World War II, to supply a U.S. war effort deprived of Malaysian rubber. The tappers hike through the forest, slitting the trunks of rubber trees and fixing small buckets to them to collect the dripping latex.

The governor-elect, Jorge Viana, and the new mayor of Xapuri, Julio Barbosa Aquino, have not issued concrete plans, but they said they would build their administrations around the needs of the tappers, a first for the region. Unlike ranchers, for example, t

THE AMERICAS

Democrats' Hopes Fade for Pretrial Censure of Clinton in the SenateBy Brian Knowlton
International Herald Tribune

WASHINGTON — President Bill Clinton's supporters in the Senate acknowledged Tuesday that they were making little headway with proposals for censure of the president — rather than conviction and banishment from office on articles of impeachment — and they worked with Republicans to settle details of a Senate trial next week that has become all but certain.

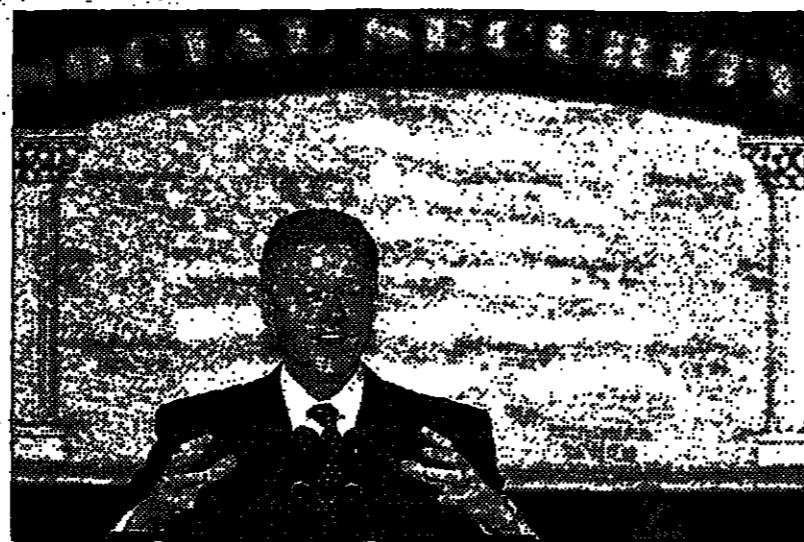
But as all parties scrambled to hammer out strategy and finalize procedure for only the second Senate trial of a president, it was clear that they had precious little precedent to guide them.

In an interview, Senator Trent Lott of Mississippi, the majority leader, urged Democrats to "calm down" and allow a trial to proceed, rather than seek to broker a censure agreement before evidence is heard, the Los Angeles Times reported Tuesday.

"We need to go forward and do our constitutional duty," he said.

The spokeswoman for the Senate minority leader, Senator Tom Daschle of South Dakota, said that there appeared to be little likelihood of a censure agreement before a trial begins.

"It does look as if the Senate will at least begin the proceedings, possibly as



Facing an almost certain Senate trial, Mr. Clinton has kept to his schedule.

early as next week," said the spokeswoman, Ranit Schmelzer.

Mr. Lott's comments do not foreclose the possibility that a censure proposal could be advanced after the new Senate begins its work Jan. 6, but leaders of both parties now indicate that they do not expect that. Instead, they have

Democrats could reach the needed 51 votes by gaining support from a few moderate Republicans.

Mr. Lott warned, however, that to negotiate a censure resolution that would command bipartisan support and withstand legal challenge would not be simple. Unless narrowly and carefully written, he said, such a rebuke could raise "all kinds of constitutional problems."

In the House of Representatives, the majority Republicans refused to permit censure to come to a vote, saying it was not provided for in the constitution.

Democrats contended that the constitution did not specifically bar censure, and that by adding a fine or requiring a public apology by Mr. Clinton, it would constitute proper punishment for his attempt to conceal his intimate relationship with Monica Lewinsky.

The 13 House "managers" who will in effect prosecute the two articles of impeachment held an organizational meeting Tuesday.

All 13 are Republican members of the House Judiciary Committee and all are lawyers. They expressed conflicting opinions on one of the most basic issues of prosecutorial strategy: whether to call witnesses.

Their leader, Representative Henry Hyde of Illinois, the House Judiciary Committee chairman, is expected to ex-

plain the case for impeachment to the Senate as early as Jan. 7. He has said that the thousands of pages of sworn testimony included in the referral to Congress from Kenneth Starr, the independent counsel who investigated Mr. Clinton, make witnesses unnecessary.

Other members disagreed. "I think witnesses would be appropriate," said Representative James Rogan of California. He said on CNN that as a former federal prosecutor, presenting a case without witnesses worked only when the case was "a slam-dunk winner or a slam-dunk loser." The case against the president, he said, was neither.

The White House has had little comment on the question of witnesses. It is also unclear how much of the available evidence — largely the 60,000-page referral from Mr. Starr — will be allowed into the Senate record.

Much of the uncertainty about the nature of a Senate trial owes to the fact that it is in many ways a political process and deviates in dramatic ways from the judicial approach. Decisions about procedure and evidence will be decided not by precedent, law or a judge, but by vote of the 100 senators.

Mr. Clinton has kept a busy schedule in recent days and intends to continue doing so to stop any rumors that he is seriously depressed at having become

only the second president, after Andrew Johnson in 1868, to be impeached. His adamant refusals to step down appear to have quelled calls for his resignation.

White House lawyers have been holding daily strategy sessions. Top advisers have kept in touch with moderate Republicans who, they hope, might join with Democrats to end a trial.

Pro-impeachment Republicans kept the White House off balance during the impeachment proceedings by insisting that it not overly lobby members of the House. They have done the same regarding the Senate, saying to do so would constitute "jury tampering."

Asked about the Democrats' position on the matter, Ms. Schmelzer, the Daschle spokeswoman, said: "Of course the White House needs to be informed as to how we're going to proceed, since of course it affects them. But the sense is that they should not lobby."

After Mr. Hyde presents the arguments for impeachment, the White House will be given time to respond. Only then, Mr. Lott said, could there be a vote on censure, or on the articles of impeachment.

To some extent, the length of a trial would depend on the White House. If Mr. Clinton's lawyers contest the facts of the case, a trial could take weeks. Otherwise, Mr. Lott said, the evidentiary phase could be dealt with in three days or less.

A New Boss Vows to Take Beleaguered UPI UpscaleBy Felicity Barringer
New York Times Service

NEW YORK — Helen Thomas has covered the White House for United Press International since the Kennedy administration, but in recent years, as the once-proud news agency withered, one could search through hundreds of American newspapers without finding her byline or her copy. What readers she has are mostly scrolling through the World Wide Web.

Friends and colleagues ask Ms. Thomas, 78, what became of the organization that in its heyday was the first to tell the world about the assassination of President John F. Kennedy. She answers, ruefully, "I make it a point not to know." Then, with a mixture of defiance and verve, she adds, "My joy is that we're still in business and we're alive."

When she calls the office, she said, she is happy to know that "someone answers on the other end."

Not always the same someone, however, UPI, whose chief executives used to have a shelf life only slightly longer than a piece of wire-service copy, has named Armand de Borchgrave as president and chief executive.

Mr. de Borchgrave, 72, who made his name synonymous with diplomatic reporting during 30 years at Newsweek and later edited The Washington Times, is rejoicing a service that is a barely recognizable remnant of the globe-spanning wire service he worked for in 1947, when he succeeded Walter Cronkite as UPI's bureau chief in Brussels.

Except in Washington, Chicago and a few other cities, UPI correspondents work in "virtual bureaus" — meaning home offices, or perhaps at their kitchen tables — filing dispatches daily for clients that tend to be World Wide Web sites or local radio stations.

Counting interim managers, Mr. de Borchgrave will be the sixth head of the news agency since 1992, when it was purchased by Middle East Broadcasting Center Ltd., whose principal owner, Sheikh Walid al Ibrahim, is a brother-in-law of King Fahd of Saudi Arabia.

Mr. de Borchgrave inherits an organization that has lost \$120 million in five years, according to his predecessor, James Adams. The editor in chief, Susan Oldfield, and Tobin Beck, a managing editor, say Mr. de Borchgrave will have a staff of about 150 journalists — one-tenth as many as it had in 1982 — and 200 stringers.

Mr. de Borchgrave said his goal was to take the news service "upscale" and to cover "critically important news that others are ignoring." The direction, he added, would be "homicidal."

"I was raised on issues; I was not raised on scandal," he said, adding, "What was going on in somebody's basement was never of interest to me."

Away From Politics

• Prosecutors are to seek the death penalty for two men accused of killing a gay University of Wyoming student, Aaron James McKinney, and Russell Arthur Henderson, both 21, are accused of pistol-whipping Matthew Shepard, 21, and tying him to a fence. He died five days later, on Oct. 12. (AP)

• Students participating in California's class-size reduction program fared modestly better on last spring's state reading and mathematics tests than those who did not, data shows. In third grade, for instance, 41 percent of students in classes limited to 20 pupils scored at or above the national average in reading, compared with 33 percent in larger classes; preliminary analysis of statewide test data shows. (LAT)

As High-Class Living Moves Downtown, Denver Joins U.S. ShiftBy James Brooke
New York Times Service

DENVER — From her fifth-floor apartment in a freshly converted flour mill, Dana Crawford surveyed the abandoned railroad yards at the core of downtown Denver and envisioned lofts and more lofts.

As carpenters built 350 apartments and bulldozers opened utility reaches for 3,500 more, Ms. Crawford, a developer, waved to a cluster of vacant red-brick warehouses near the freight tracks and predicted, "All these warehouse buildings will be turned into lofts."

Within a one-mile radius of Union Station, Denver's beaux arts historic core, the city is halfway through a decade-long downtown investment of \$1 billion in three sport stadiums, an aquarium and urban shopping complexes.

Following retail and entertainment, downtown is now embarking on an additional \$1 billion in residential construction. A total of 1,334 apartments are now being built or converted downtown, more than the total of the last four years.

Denver's move toward downtown living is part of a national trend, according to a new study of 24 large American cities by the Brookings Institution and the Fannie Mae Foundation research groups. In a reversal of a trend that started after World War II, in which inner cities lost population, each city forecast growth in the number of people living downtown.

By 2010, the study reported, downtown populations are expected to quadruple in Houston, to 9,500 people, to more than triple in Cleveland, to 21,000, and to nearly triple in Denver, to 9,250. Growth is also expected in bigger cities, with Chicago's downtown population forecast to increase by a third, to 152,000.

But the migration downtown is especially striking in Denver, a sprawling city of houses and low-rise buildings.

Denver fits the pattern of a Western automobile city, so for a Sun Belt city, what is happening here is very inspiring," said Brad Segal, an urban consultant who is on the board of the International Downtown Association, an organization of city

planners specializing in downtowns. Noting that delegations from cities as diverse as Albuquerque, New Mexico, and Baltimore have recently toured downtown Denver to get ideas, Mr. Segal added, "Most of the cities I work in want to be like Denver."

Planners caution that the move downtown, in Denver and elsewhere, is a minirent in the face of continuing suburban expansion. Indeed, while the city of Denver's population grew by 2 percent, or 12,000 people, since 1980, to about 500,000 people, its suburbs grew by a third in the same time, adding 505,000.

But looking ahead, Mr. Segal and other urbanists believe that demographic and accumulated wealth are pointing to radical transformations in American downtowns in the coming decades.

Virtually all the people moving into downtown Denver do not have children living at home. They are singles, childless couples or older people, the "empty nesters" whose children have left for college and careers.

By 2010, 72 percent of American households will not have children at

home, said Dao Nguyen, a research analyst who helped prepare the Brookings study.

In Colorado, the fastest-growing population segment in coming years is forecast to be households of people 54 years old and over.

In addition to the continuing transfer of wealth from the World War II generation to the baby boomers, a new change in tax is expected to help "empty nesters" cash out of the suburbs. Last year, a change in federal tax laws raised the \$500,000 from \$125,000 portion of earnings from the sale of a primary residence that is free of a capital gains tax.

"An older couple can put half the money in a downtown apartment, and save the rest for travel or a second residence," said Larry Grace, regional vice president of Trillium Corp., a downtown developer in Denver.

Developers for Trillium plan to break ground next year for 700 apartments, the first of as many as 4,000 that are to be built over the next decade.

The apartment demand is there. A recent survey of a sample of the 110,000

people who work in downtown Denver found that 60 percent of those surveyed were interested in living downtown.

On the free market, prices have soared. In one decade, what was once known as Lower Downtown has been transformed from skid row to a neighborhood called LoDo, which is Denver's second-most-expensive housing market, after Cherry Creek.

"I wanted to get \$3,000-a-month rent," Mike McPhee said of renting his 1,900-square-foot (175-square-meter) LoDo apartment earlier this year when he moved to a smaller place. "The real estate agent brought in five different guys, none of whom had any trouble with that kind of rent."

Mr. McPhee's price was \$19 a square foot a year. In 1987, John Hickelmoor, a downtown pioneer, rented commercial space in an adjacent building for \$1 a square foot a year.

LoDo's appeal comes from many factors: declining urban crime, rising congestion of suburbs, a powerful regional economy and a host of entertainment venues within walking distance.

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ASIA/PACIFIC

Inquiry Ties Suharto To Public Funds Loss

Government Reveals \$205 Million Hole And Suspects His Family and Associates

Reuters

JAKARTA — The government announced Tuesday that it had found hundreds of millions of dollars in corruption linked to the family and associates of former President Suharto and possibly his successor, B.J. Habibie.

But it urged Indonesians to be patient over the lengthy investigations into possible graft by Mr. Suharto, whose autocratic rule of 32 years ended in May in the face of mounting social and economic crisis.

"The government losses are 2.85 trillion rupiah in rupiah terms and \$205 million in dollar terms," Mr. Hartarto, coordinating minister for development and administrative reform, said after he and seven other ministers met with Mr. Habibie to discuss the issue.

"Yes," Mr. Hartarto replied when asked if most of the losses were linked to the former ruler's family and associates.

The announcement came after the attorney general's office questioned one of Mr. Suharto's sons for three hours over alleged corruption in a foundation headed by the former leader.

Bambang Trihatmodjo was quoted by officials as denying that any of the money belonging to the charitable foundation, of which he was treasurer, had been siphoned off.

Analysts say Mr. Suharto's family amassed billions of dollars during his now discredited reign and there have been mounting calls for him to stand trial for alleged corruption.

Forestry Minister Muslimin Nasution, among those who met Mr. Habibie, said decrees issued during Mr. Suharto's rule had allowed money set aside for reforestation to be used by companies.

One of the companies was the state airplane manufacturer, long headed by Mr. Habibie.

The ministers listed scores of projects involving state companies that were being canceled or retendered. Twenty-four toll road projects alone have been dropped, nearly all of them involving a company headed by Mr. Suharto's eldest daughter, Siti Hardianti Rukmana.



Bambang Trihatmodjo, second son of Suharto, leaving the Jakarta attorney general's office Tuesday.

Press reported Tuesday, quoting police reports.

Nine policemen and at least two villagers were injured in the clash Monday in Liwa, 300 kilometers (180 miles) northwest of Jakarta. Officers fired warning shots to disperse stone-throwing rioters who attacked a third police post.

Calm returned, meanwhile, to the Sulawesi island town of Poso on

Tuesday after fighting between mobs that was sparked by weekend brawls involving gangs of youths.

At least 150 people were injured in the clashes Monday, said Dr. Abram, a physician at the local hospital in Poso.

The violence in Liwa broke out after the death of a villager, identified as Sanin, who had been detained for questioning in a robbery

case. A preliminary autopsy indicated that Sanin committed suicide, the police chief, Lieutenant Colonel Tri Pamoyo Kartiko, said by telephone.

Rumors spread, however, that the police had killed him and residents took to the streets in protest.

They were also angry over the detention of another man in the same case.

Split Threatens Hong Kong Democratic Party

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HONG KONG — The leader of Hong Kong's largest political party admitted for the first time Tuesday that the party had internal divisions that could cause a split.

The Democratic Party chairman, Martin Lee, told the Ming Pao daily that there was a possibility of a split amid tensions between its leaders and what he called "young turks" pushing for it to focus on the grassroots concerns of Hong Kong's poor and its working class.

"Some have suggested the party should take

to the streets and not waste time in the legislature because we can't win there."

He added at a news conference Tuesday that the system was "against us, and Tung's administration doesn't want to deal with us."

He blasted Chief Executive Tung Chee-hwa

for favoring the pro-China Democratic Alliance

for Betterment of Hong Kong and using it to undermine his party by encouraging radicalism. "Everyone must respect the rules of the game, but the government has gone against the rule, how can we continue to play?" he said.

Some analysts said the split was also a result of disagreement within the opposition party's leadership over its strict anti-Beijing line, which some voices said should be abandoned in favor of direct dialogue with the Chinese authorities.

Mr. Lee's party won 60 percent of votes in legislative elections in May, but because of an electoral system designed by Beijing it holds only 13 seats in the 60-seat legislature.

Mr. Lee said the party would try to resolve discontent over its policies on labor and social issues at its annual general meeting next month.

"I don't think the Democratic Party is going to split up," Mr. Lee said. "A party can't forever

speak in one voice. If a party always has only one opinion, I think that would be frightening."

"We can see it on the mainland," he added, referring to China.

Joseph Cheng, an independent political commentator at the City University, said that a Democratic Party split was "inevitable," but that it was too early to say when. "There is no question that there are differences within the party, with some wanting to improve relations with China to seek recognition and establish official dialogue, while others don't believe in it," Mr. Cheng said. "There is a possibility the party will form into several factions."

Leung Yee-ping, a commentator in the pro-China Wen Wei Po daily, said "The party has no market for its anti-China line after the handover. The party is at a cross-road."

(AFP, Reuters)

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Daily Diet of Death Numbs Karachi

Violence and Killings Spread From Slums to Wealthiest Neighborhoods

By Dexter Filkins
Los Angeles Times Service

KARACHI, Pakistan — This city's long slide into anarchy has left its people too exhausted to pity even the dead.

At the Jinnah Medical Center, the burned and mutilated corpses that arrive many nights prompt little more than the lighting of a cigarette.

"In the beginning, it affected me," said Dr. Shahab Junejo, an emergency room physician. "Not now. You get used to it. Not even the families cry anymore."

This South Asian seaport of 14 million people is engulfed by a wave of violence that has left more than 800 people dead this year — with many victims hideously disfigured. Although most of the killing is rooted in the tangled politics of Karachi's slums, the violence has begun to reach into the city's wealthiest neighborhoods.

After the slaying of a prominent philanthropist in late October, Prime Minister Nawaz Sharif dismissed the provincial assembly and imposed emergency rule.

Mr. Sharif ordered the army to take over the courts and heavily armed rangers to sweep the streets in armored cars. Dozens of people have been arrested, many without charges, and criminal suspects have died in police custody.

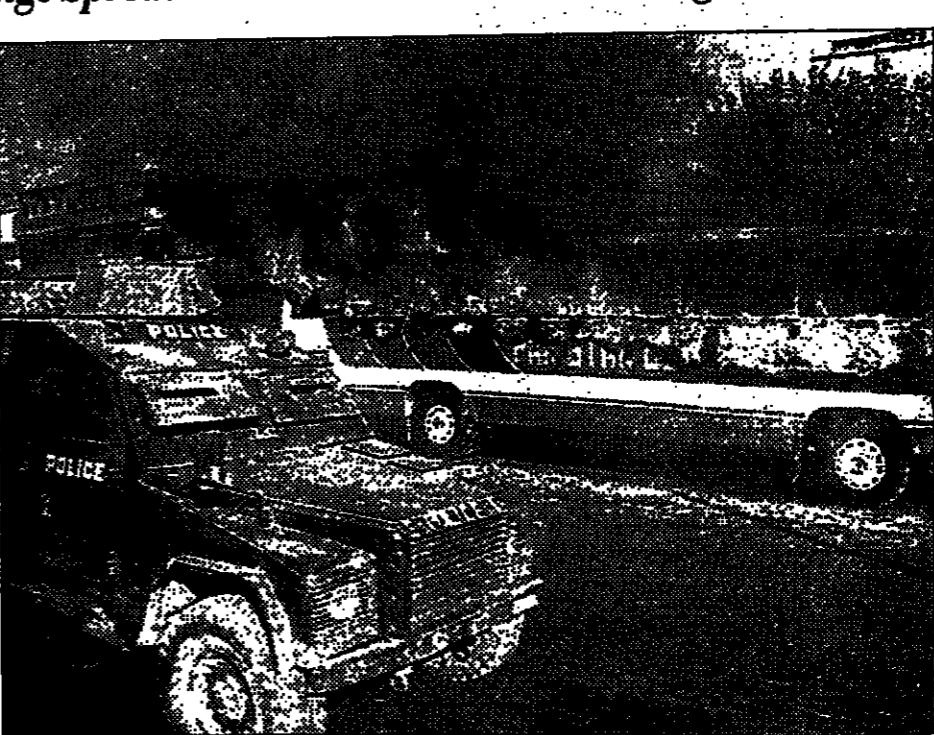
Dozens more have been killed in murky circumstances referred to by the police as "encounters."

Although the harsh measures have slowed the pace of killing, few people here believe that the calm will continue for long.

Karachi suffered through similar rampages in 1992 and 1995. But this time, Karachi residents say, there is a widespread collapse of confidence in Pakistan's leaders — some of whom have been implicated in the violence and corruption they have pledged to end.

With the nation's economy in shambles and Islamic fundamentalists on the march, many Pakistanis fear that the country's 10-year-old experiment with democracy — hard won after years of dictatorship — is coming to an end. A public mood once sustained by measured hope has sunk to a cold despair.

"We fought so hard to



A bus burning in Karachi on Tuesday. Violence has claimed over 800 lives this year.

bring democracy to this country," said Ghazi Salabuddin, a newspaper columnist harassed during the military regime of President Mohammed Zia ul-Haq in the 1980s. "We did not know that there would be a time when we no longer believed in the future."

Every day offers fresh evidence that the rule of law has disintegrated. When a team of Colombian anti-terrorism experts embarked on a tour of the city, their armored car came under machine-gun fire and had to retreat. After the police announced a string of arrests in the slaying of Hakim Saeed, the philanthropist, two of the suspects died in police custody.

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Newspapers, to run a monthly feature called "Death File," which tracks the number of people slain in the city. Early in December, after another death added to the tally and eight people were wounded in ethnic strife, police swept through the city and arrested 25 suspected militants.

People do not even feel safe with the police.

"When this happens to you, you are no longer a

BRIEFLY

Singapore Opposition Tests Waters

SINGAPORE — Although threatened by the police, one of Singapore's few opposition party leaders gave a public speech without a permit Tuesday, saying all other avenues for disseminating information had been blocked by the government.

"The constitution of Singapore guarantees the freedom of speech, assembly and association," said Chee Soon Juan, 36, secretary-general of the Singapore Democratic Party. "I'm exercising that right as a fellow citizen of Singapore and a member of a political party."

Standing on a lawn at Raffles Place in Singapore's business district, Mr. Chee drew a crowd of more than 250 people to hear his hourlong speech criticizing the government's economic, human rights and foreign affairs policies.

Superintendent Low Hui Hui of the central police station warned Mr. Chee three times before he started speaking that he had to speak without a permit from the Criminal Investigation Department violates the Public Entertainment Law. The police tried to serve the politician with a summons to appear for questioning. Mr. Chee refused to take it, however, and told the crowd that he intended to speak at the same place and time next week.

Japan Still Aims for a Coalition

TOKYO — Prime Minister Keizo Obuchi and a key opposition leader agreed Tuesday to keep working toward a coalition government, although they were unable to overcome differences that still threaten to end talks.

Mr. Obuchi and a Liberal Party leader, Ichiro Ozawa, tentatively agreed in November to work toward a coalition government — a critical move in efforts by Mr. Obuchi's Liberal Democratic Party to secure its hold on power. "If our policies and views are not realized, then I'd like to scrap our initial agreement," Mr. Ozawa said after a late-night meeting at the prime minister's residence. Despite the words of warning, both sides confirmed their commitment to keep trying.

2 Chinese Dissidents Sentenced

BEIJING — Two U.S.-based Chinese dissidents who sneaked back into China were caught by police and sentenced without trial to three years of forced labor, the Foreign Ministry said Tuesday.

In the first official statement on the whereabouts of Zhang Lin and Wei Quanbo since they slipped into China seven weeks ago, the ministry said the police arrested them Nov. 12 in the southern city of Guangzhou.

The ministry said the two men, who had been living in exile in the United States, confessed to hiring prostitutes and evading border police by hiding inside a truck from Hong Kong on Nov. 11. For those alleged crimes, both were sentenced to three years of "labor re-education" — the maximum sentence police can order without a trial.

Suspect in Arsenic Deaths Indicted

TOKYO — Police investigating the deaths of four people at a July festival said Tuesday they had indicted a former insurance saleswoman on charges of murder and attempted murder.

Masumi Hayashi, 37, is suspected of putting arsenic into curry served at the festival in the western Japan town of Sonobe on July 25. Besides the four who died, 63 people became ill.

Mrs. Hayashi and her husband, Kenji, 53, have been in custody since October for an alleged insurance scam involving the use of arsenic.

(Reuters)

Alvin Pre... Monitor

BRIEFLY Calm Prevails in Kosovo

But Truce Monitors 'Cannot Really Predict Future'

Reuters
PRISTINA, Serbia — International monitors said Tuesday that a restored ceasefire in Kosovo between Serb security forces and ethnic Albanian rebels was holding firm, and NATO warned both sides not to resume fighting.

"There are no reports of shooting or anything," said Jorgen Grunnet, the spokesman for the international monitors. "We cannot really predict the future here, but I certainly hope the cease-fire will hold."

In Brussels, the NATO secretary general, Javier Solana Madariaga, reiterated warnings that the alliance was ready to use force if the situation in Kosovo deteriorated.

In a brief statement issued from North Atlantic Treaty Organization headquarters, Mr. Solana urged all parties to maintain the cease-fire. "NATO is ready to intervene if the situation requires," the statement said.

The fighting, which started Thursday and went on for four days, ended when the commanders of both sides agreed to plead to cease fire from monitors deployed by the Organization for Security and Cooperation in Europe.

At least 18 people were killed and several wounded in

the violence, the worst since a truce between Serb security forces and guerrillas of the separatist Kosovo Liberation Army was reached in October under U.S. mediation.

On Tuesday, Yugoslav Army vehicles could be seen along the road between the regional capital, Pristina, and Podujevo to the north. Several soldiers lay in a ditch along the road, which was the scene of some of the fiercest clashes last week. But there was no shooting.

The situation within the last 24 hours has been assessed as relatively quiet," said Sandy Bly, a spokesman for the monitors. "In the Podujevo area the situation is obviously tense."

Monitors said four bodies were found Tuesday.

In Mitrovica, west of Podujevo, two people were found dead just off the road to Pristina, Mr. Bly said.

The Serb-run Media Center said both were killed by ethnic Albanian separatists, but could not say when.

Mr. Bly confirmed that another two men were killed in the southern town of Prizren. They were former police officers in a security force established this year by Serbian authorities and composed of local ethnic Albanians.

The Media Center said they had been killed Monday.

Mr. Grunnet said the latest violence consisted of local skirmishes. "There was no all-out war," he said.

Foreign Minister Bronislaw Geremek of Poland, current head of the European security organization, said Sunday that if the violence worsened, the organization would have to reconsider the nature of its mission.

But Wolfgang Petritsch, the European Union's Kosovo envoy, said Monday that the verifiers would continue to be deployed and that the mission was evolving all the time. The verifiers now number more than 500 out of the 2,000 who will make up the full mission.

Kosovo separatists standing guard Tuesday at the funeral of a rebel in Obranca.

(AP Photo/Borisov)

CYPRUS: Island Cancels Deployment of Russian S-300 Missiles

Continued from Page 1

tab might be picked up by Greece or other NATO countries, such as the United States or Germany, now that the weapons seem destined for Greece and might therefore count in the NATO inventory.

Turkey was not alone in objecting to the Greek Cypriots' order for the S-300 missiles, an advanced system which carries the NATO code name "Grumble" and whose radar system is so sophis-

ticated that it would require the presence of Russian military personnel to operate on Cyprus. The system would have been able to track the movement of NATO aircraft as far away as the Balkans.

NATO governments had therefore urged Greece to help find a face-saving way to avoid bringing the weapons to Cyprus. The decision was largely in the hands of Mr. Clerides, who met Tuesday in Athens with Prime Minister Costas Simitis of Greece and returned to Cyprus

to rally support among political parties for the Cretan solution.

In ordering the missiles in 1997 as a gesture affirming their right to self-determination, the Greek Cypriots' real motives, diplomats said, probably had more to do with hopes of forcing European governments to step up efforts to settle the Cyprus problem, which has festered since 1974, when a Greek Cypriot coup triggered a Turkish invasion that led to the partition of the island.

GERMANY:

Schily Portrait

Continued from Page 1

old German system of being subject to authority. Germany in the 1960s was a repressive society. It took a long time even to talk of certain things, and perhaps it is only recently that we have achieved a true democratic opening and overcome our fear of change."

As interior minister, Mr. Schily will oversee one of the decisive changes proposed by Mr. Schroeder's government: the scrapping of old immigration laws based principally on German stock or bloodlines and the introduction of legislation to enable many of the 7.4 million foreigners to become citizens. That number now includes many children born to immigrants in Germany.

This shift, with its implicit acknowledgement of the country's multi-ethnic makeup, seems likely, over time, to alter Germany's self-image. For Mr. Schily, it is a step of historic dimensions. "But he says this with a relaxed smile, one that says change is in the nature of democracy — a normal thing, part of the ebb and flow of politics.

He is among the many Germans who have followed their country from Allied tutelage to independent statehood, to the first stirrings of unrest, to Willy Brandt's memorable call in 1972 for "risking more democracy," to prosperity, unification and, at last, the freedom that lies in the conviction that the country has earned the right to chart its own course.

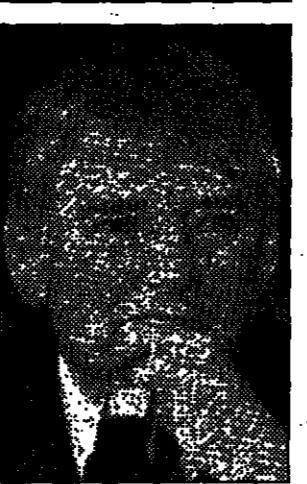
But that freedom, for the interior minister, clearly comes with a keen sense of responsibility. Mr. Schily is no starry-eyed reformer. Listen to him on the subject of admitting new immigrants: "We have reached the limits, the point where we have to say we cannot bear any more. The majority of Germans agree with me: zero immigration for now. The burden has become too great. I would not even dare publish the costs that stem from immigration. The Greens say we should take 200,000 more immigrants a year. But I say to them, show me the village, the town, the region that would take them. There are no such places."

In other words, as Germany sets about offering citizenship to foreigners already inside the country, who amount to about 9 percent of the population and constitute by far the largest number of foreigners in a European state, it is not about to open its doors to others. Germany, for Mr. Schily, must be tolerant but not permissive.

The interior minister has long walked such fine lines, formed by the tension between impulsion and rigor.

Born into a distinguished family — his father was a prominent industrialist and another forebear, Victor Schily, was a close friend of Karl Marx — he spent his adolescence during the war in Bavaria. The family opposed Hitler, and Mr. Schily recalled the Nazis storming into the family home in 1941 and ripping up books.

After the war he moved to West Berlin, studied law and set up practice in a conservative law firm. Here, in the



Otto Schily, who typifies the new German subtlety.

rarefied atmosphere of a city that became a magnet to artists and intellectuals, he found that the idealistic view of the United States he had formed during the war was progressively eroded by Vietnam and by American support for what he called "the shah's police state in Iran."

On June 2, 1967, he went to a demonstration in Berlin against the violation of human rights in Iran. A student, Benno Ohnesorg, was shot dead by police. Shocked and outraged, Mr. Schily, then 34, decided to represent the survivors of his family.

A latecomer to politics, Mr. Schily worked with Petra Kelly as a founding member of the Greens in the late 1970s and was a party spokesman when it first entered the legislature in 1983.

He had been moved to help forge the party by an interest in ecology and desire to open up Germany's relatively closed political system, rather than by strong support for the pacifism espoused by the Greens. "We opened up a closed shop," he said, "and that in itself was a critical catharsis for Germany."

But the sharply dressed lawyer, dealing in the real world with a strong streak of pragmatism, was always something of an anomaly among the tree-hugging Greens. Mr. Schily became impatient with the party's egalitarianism — "Promises" (prominent people) were always suspect — and with the refusal of the party's "Fundis" (fundamentalists) to confront the realities of the fight for political power. He finally abandoned the Greens in 1989 and joined the Social Democrats.

Today, his relations with the Greens are uneasy, strained by his hard-nosed statements on further immigration.

"How can you be liberal to foreigners who are here, and so hard to those who want to come?" said Cam Ozdemir, a Green legislator of Turkish descent. Mr. Schily's policy is going to create the impression of a double standard, and I fear that prejudice will be reinforced."

But the interior minister seems unlikely to change his stance to placate the Social Democrats' junior coalition partners. Like Mr. Schroeder, he knows that even in a changed Germany, the middle ground remains important. To have struggled so long with the left is to know the power of German conservatism.

"It is not a question of being immigration-friendly, or immigration-hostile," Mr. Schily said, his eyes glinting. "It is merely a question of reality."

RUSSIA: As Once-Proud Military Deteriorates, Thousands of Conscripts Flee Hazing and Abuse

Continued from Page 1

ers complain that drug addicts, alcoholics and criminals are being admitted to the army in large numbers.

The Defense Ministry says 42,000 deserters are on the lam at any time.

Defense officials are defensive or dismissive about complaints that the service is brutal. But hardly a month goes by without some scandal involving soldiers reaching the public eye.

Last month on a base near Volgograd, two captured soldiers who had been absent without leave were punished with confinement in a pit on a firing range. Overnight, the hole collapsed, burying them alive. One of the soldiers died before they were discovered; the other survived.

In September, a sailor on duty aboard a nuclear submarine shot and killed eight of his comrades, then shot himself. Officers said he was "mentally unfit"; friends said he had been hazing.

During the draft call last spring, Russian television broadcast a videotape that has left an indelible image on the national consciousness. In a sadistic hazing ritual, burly

older men marched down a row of junior soldiers and knew each one in the chest. In response to orders to stop such assaults, commanders at a base in the northern Caucasus require soldiers to strip for inspection every week.

That way, the officers can check for bruises hidden by clothing — and the recruits' fearful silence.

"I volunteered," said Volodya of his five-month career in unit of the railroad troops, which provide security along Russia's vast locomotive network.

"The grandfathers wanted money. They didn't care how I got it — stealing, begging. When I didn't pay, they hit me in the chest. Kicked me around the room. The officers in charge, they looked the other way."

Volodya's eyes shifted nervously to one side. The sound of shuffling footsteps behind him on the ice-glazed sidewalk made him fidget. He lives a life of suspicion and hides at a friend's house. On occasion, he borrows a neighbor's baby and takes it for a stroll just to get outside.

"It's camouflage," he said sheepishly. "Police don't

stop you if you're tending a stop you if you're tending a

private flock was not dressed in his own uniform. He bore slashes on his neck and scratches on his hands.

At the base, Mrs. Poliakova said, soldiers took their own weapons against the war in Chechnya.

Earlier, mothers of soldiers missing in Chechnya came to the committee for help in reclaiming their sons, dead or alive. Now, mothers and sons come to learn ways to avoid the draft.

The Mothers hold Saturday seminars on draft evasion. Ella Poliakova, the co-chairwoman, opened a recent lecture with a brief eulogy for Private Sergei Floch, a slender 18-year-old who, according to his officers, hanged himself with his leather belt in a bathroom at his barracks.

Mrs. Poliakova investigated and found the explanation wanting. Private Floch had written plaintive letters to his parents that told of beatings and abuse. "Don't let my brother join the army," he implored.

Mrs. Poliakova and an assistant inspected the zinc box that held Private Floch when his body was returned to St. Petersburg and found that

According to Defense Ministry statistics, 481 soldiers took their own lives last year.

Mrs. Poliakova tucked Private Floch's picture above a makeshift altar beneath a picture of Mary and Jesus. She handed out draft evasion handbooks to her audience.

The mothers and sons first hesitated, then gingerly opened the books when Mrs. Poliakova pointed out the ailments that, if certified by a doctor, can earn an exemption.

"People don't know the law, or if they know it, they don't believe in it," said Mrs. Poliakova. "Here, we are trying to make every family a defender of human rights."

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EUROPE



BRIEFLY Russia Confirms Albright Visit

MOSCOW — The U.S. secretary of state, Madeleine Albright, is to visit Moscow next month at the invitation of Foreign Minister Igor Ivanov, the Russian Foreign Ministry confirmed Tuesday.

The working visit will take place Jan. 25 to 27, a ministry spokesman said, confirming an earlier report of the planned visit based on Russian diplomatic sources.

EDITORIALS/OPINION

INTERNATIONAL Herald Tribune

Euro Promise and Peril

The creation of the euro — comprising 11 currencies, including the deutsche mark, the French franc and the Italian lira — is a historic milestone in the path toward European union. It will push European countries to adopt more similar economic policies while sparing individual nations of significant powers that they now enjoy. At best, it will make Europe into an economic machine rivaling the United States. At worst, it will lead to political strife within the Continent.

For a couple of years the change will be completely apparent to travelers, as national currencies will continue to circulate. But as of Jan. 1 those currencies will legally be units of the new euro, as dimes are units of dollars. By mid-2002 the old currencies will vanish into collectors' vaults, and only euro coins and bills will be legal tender.

The euro is likely to join the dollar as reserve currency held by central banks around the world, perhaps leading some banks to sell dollars and thereby reduce the value of the American currency. But the United States and other countries will benefit if the euro helps to promote economic growth on the Continent.

At the same time, the change is fraught with peril. National governments have given up substantial amounts of sovereignty to make the change, often without real involvement by voters. Only two countries chose to put the issue to popular referendums. It narrowly passed in France and was defeated in Denmark, which stayed out. Other countries approved it through parliamentary votes.

By making it easier to do business throughout Europe, the euro is likely to stimulate mergers, particularly in the financial services industry. The euro may encourage countries to compete for industries by offering tax breaks, much as the states do in America. Finally, the euro will put pressure on

governments to relax business regulations. For example, companies may henceforth have much greater freedom to dismiss workers.

Such a course seemed attractive to the conservative governments that set Europe on the path to monetary union, but it is less enticing to the more leftist governments that now hold sway in many countries.

Even as the euro is inaugurated, fights are brewing over the European Union's budget, particularly its generous agricultural subsidies, and over the amount paid by each country. Oskar Lafontaine, the new German finance minister, is worried about what he calls "unfair tax competition" from some countries in Europe, and wants European rules setting minimum tax levels. That might reduce the risk of Germany's losing companies to Ireland, but it would also lessen Europe's international competitiveness.

The new European Central Bank, largely independent from national governments, faces the difficult job of setting a single monetary policy for a diverse continent that could be seeing strong growth in one region while another is weak.

The challenge for Europe will be greatest in the next cyclical downturn. There is a risk that one country or another could elect a government which blames its economic problems on European Central Bank policies over which it has no control, and threatens to withdraw from the currency union unless changes are made. The rules that Europe has adopted say that no country can withdraw from the union once it enters, so such a threat would create a crisis. There is no risk of that in the immediate future.

With luck, the arrival of the euro will improve European economies, enhance European cooperation and promote world growth.

—THE NEW YORK TIMES

Milosevic Is the Problem

As the Serbian强人Slobodan Milosevic violates the truce in Kosovo more and more flagrantly, attention naturally turns to the dimming prospects for peace in that independence-minded province of Serbia. But just as dangerous to future prospects is what Mr. Milosevic is doing to his own people in Belgrade and throughout Serbia. His crackdown against free speech, free press and free academic study only confirms that he can never be a partner in promoting stability in Kosovo or anywhere else in the region.

Thanks to a fractured opposition, to his own strong-arm tactics and to the dominance of his political party in economic life, Mr. Milosevic already had managed to squelch most dissent in his increasingly impoverished nation. But in recent months he has moved to stifle any surviving independent voices. University professors are screened for loyalty; those who will not buckle under lose their jobs. The rebroadcast of Radio Free Europe programs has been banned. Any local newspaper or magazine that does not parrot the xenophobic government line is hit with huge fines and forced to close.

A case in point is Evropjanin, until

—THE WASHINGTON POST

CIA Budget Secrets

particular intelligence programs. The budget request, on its face, should be less threatening to national security than the amount of the expenditures. At the same time, it is a critical figure in any public policy debate about the intelligence budget, because it involves pending public policy questions, rather than merely describing expenditure levels already fixed.

As for the claim that the request is a unique window on the government's self-assessment, agencies generally ask Congress for more money. The bipartisan Commission on the Roles and Capabilities of the United States Intelligence Community recommended in 1996 that the government discloses both the request and the appropriation every year, stating that such disclosure can be done "in a manner that does not raise a significant security concern."

The unwillingness to disclose the budget request smacks of reflexive government secrecy and of an unreadiness of the agency to subject itself to the most rudimentary public accountability. The CIA should reconsider.

—THE WASHINGTON POST

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Look Out, the Great American Boom Can't Last

By Robert J. Samuelson

WASHINGTON — I spent most of 1998 being wrong, at least about the U.S. economy. Everyone should hope that my record in 1999 proves equally poor, because I have been prophesying the end of the Great American Boom of the 1990s.

It could not withstand foreign recessions, an overvalued stock market and overextended consumers. It would inevitably slump, and a U.S. recession would then worsen already weak overseas economies.

All this did not happen in 1998. I think it probably will in 1999.

This fatalism may betray stubbornness or stupidity. I prefer to think that the economy fits Stein's Law, coined by the economist Herbert Stein of the American Enterprise Institute: "If something can go on forever, it will stop."

At least two aspects of the boom, I suspect, cannot last forever. One is the huge surge in stock prices, which as of Dec. 24 were up 27 percent in 1998, as measured by the Standard & Poor's Index of 500 stocks. This follows gains of 34 percent in 1995, 20 percent in 1996 and 31 percent in 1997.

The second thing that cannot con-

tinue indefinitely is the national shopping spree. The consumer savings rate is usually 4 to 6 percent of disposable income. In 1998 it was almost zero. Consumers spent nearly 100 percent of their current incomes.

Ominously, these two tenacious trends are connected. Americans are spending so much in part because they feel wealthy. Economist Bruce Steinberg of Merrill Lynch notes that higher stocks have "added roughly \$8 trillion to household net worth during the past six years." In turn, strong consumer spending shields production and profits from the boisterous effects of foreign recessions. This propels up stock prices.

People may still follow a monthly ritual of "saving," but that is offset by stock sales or borrowing. So there is a mutually reinforcing confidence game.

High stock prices boost consumer spending, and strong consumer spending boosts stocks. If either falters, the other may follow suit.

Speculative fever has surely infected the market. Internet stocks are the usual

suspects. Consider Amazon.com, the on-line bookstore. Its stock went public in May 1997 at \$9 a share. A year ago it traded at about \$25 a share. It has recently traded at around \$320. Now this company has never made a profit. For the first nine months of 1998 it lost \$78 million (\$1.60 a share) on sales of \$357 million.

Amazon.com may ultimately be fabulously profitable. One Wall Street analyst predicts that it will earn \$10 a share within five years. This would be about \$500 million, which roughly equals its present annual sales. Even if this does happen, and even if the stock remains at its current price, the profits would provide a meager 3 percent return to the stockholder.

Why do people buy such stocks at such lofty prices? Maybe because they hope to sell to someone else at even looser prices.

Look at trading volumes. On a typical day, almost a third of the available shares of Amazon.com stock are bought and sold. Many investors are not "holding" for the long term. They're aiming for a quick kill.

It would be reassuring to think that

this speculative frenzy afflicts only Internet stocks. But I am suspicious, and so are some Wall Street types. "We're in one of the great bubbles of all time," says Barton Biggs, the chief global stock strategist for Morgan Stanley Dean Witter. "It's the ascendancy of greed over fear."

At present prices, the stock market has a price-to-earnings ratio of about 31 or 32, using the S&P stock index. These are record levels.

What now sustains confidence is confidence. The economy has done well, so people expect it to do well. Perhaps it will. Unemployment is low, inflation is trivial. People expect interest rates to drop further. But few of the threats of 1998 have vanished.

Japan's economy is still shrinking. Latin American economies are still weakening; the U.S. trade deficit is still growing; global overcapacity in many industries is still expanding. These trends imperil jobs and profits — the props of confidence. The shopping sprees could end; stocks could drop; a recession could ensue. At any rate, that's how it seems to me.

Washington Post Writers Group.

For Germany and Japan, an Agenda Beyond Apologies

By Ian Buruma

WASHINGTON — In the run-up to the September elections in Germany, Chancellor Helmut Kohl pushed the idea of an enormous Holocaust memorial in Berlin, designed by the American architect Peter Eisenman, as a kind of centerpiece for the reborn capital.

Gerhard Schroeder, leader of the Social Democrats, objected; he has said Germans should "look ahead without forgetting what happened." His adviser Michael Naumann, now culture minister, warned that the memorial would become a site for neo-Nazi vandals.

Then in October Martin Walser, a well-known novelist, declared in a speech that he was tired of seeing the Holocaust pop up all the time in the media. He said Auschwitz had become a "routine threat, a tool of intimidation, a moral cudgel or just a compulsory exercise."

Promptly, the leader of the Jewish community in Germany, a Holocaust survivor, Ignatz Bubis, accused Mr. Walser of "mental arson."

Clearly the complexion of the German Problem has changed. Whereas traditionally

it was always conservatives who complained about the "Holocaust industry," now it is often liberals who do so.

It is as if, now that the left is in power again after nearly two decades, it should feel free to talk as the right sometimes did. Impatience on the right with the legacy of the Holocaust was called "fascist." On the left it is "breaking taboos."

One of Mr. Walser's prominent supporters has been Rudolf Augstein, founder of the liberal magazine Der Spiegel, who said foreigners like Mr. Eisenman should not be allowed to "dictate how we deal with memories of the past in our new capital."

At least Mr. Augstein is consistent: he has always been a liberal nationalist. But his statement rings all the bells of self-pitying German xenophobia.

Who is dictating anything to the Germans, anyway? Mr. Augstein hints at the "world press," which is always "beating up" the Germans. And who owns the "world press"? No, he is not so coarse as to fall into that rancid trap.

They are old enough to have lived through the war, but Mr. Walser and Mr. Augstein fit the mood of a new, younger, more assertive Germany.

The people in the Schroeder government were born after any war guilt could have stuck to them. This does not give them any right to gripe about hearing about the Holocaust, or to complain about survivors claiming money or goods that were stolen by the Nazis. There is a nasty tone to accusations from liberals about money-grabbing Jewish lawyers in litigation over Nazi-era bank accounts.

And yet, in one sense, Mr. Walser deserves to be taken seriously. Auschwitz has become a moral cudgel, not least in the hands of Germans themselves. Günter Grass argued in 1989 that the memory of Auschwitz should stand in the way of national reunification, since a unified Germany was guilty of the Holocaust.

When Willy Brandt fell on his knees on the site of the Warsaw ghetto in 1970, it was a moving and necessary acknowledgment of a great crime. But such symbolic gestures are too precious to become routine. Official tears have become too cheap, too ritualistic. Piety is often a substitute for knowledge and understanding. So it is perhaps right to question whether a huge Holocaust memorial is really the most appropriate monument for a democratic Germany.

PIETY about war guilt is not a conspicuous feature of the Japanese scene. Yet there, too, a certain weariness about being constantly reminded of war guilt is being felt. If Mr. Augstein exaggerates foreign manipulation of German guilt, Japan is routinely subjected to just that from China.

Japanese were guilty, to be sure, of an atrocious war in China and other parts of Asia. But ever since Deng Xiaoping opened China's door to foreign trade and investment, Chinese leaders have been working on Japanese guilt to secure political and economic favors, as President Jiang Zemin did in his trip to Japan last month.

The Japanese should not forget what was perpetrated by their nation during the war, but it is a bit rich for the leader of

the Chinese Communist Party, whose murderous legacy can still not be openly discussed in China, to lecture the Japanese about the importance of remembering the past.

Japan never had a Willy Brandt. No Japanese prime minister ever knelt in Nanjing, site of the most awful Japanese atrocities in 1937. Yet Japanese prime ministers have acknowledged the past and apologized for it (although not in writing). And despite much angry and sometimes ignorant talk about Japanese burying their guilty secrets, there is a great deal of Japanese literature that deals honorably with the war.

To be sure, there are right-wing revisionists in Japan, some of them occupying senior positions in the Liberal Democratic Party. But even most conservative historians agree that Japan's war was vicious.

What they dispute is that the Japanese military enterprise, however bloody, was comparable to the Nazi attempt to exterminate a people. And in my opinion they are right to do so.

In any case, to use historical guilt as a political tool, as the Chinese do, is the best way to stir up Japanese hostility and also trivialize the history itself.

PIETY in fact never prevents men from going to war. And the inherent wickedness of Germans, Japanese, Serbs or any other people, including Americans, was never the reason why they went to war. Dictators wage war to expand or protect their power. Countries fight wars to protect or expand their resources, spheres of interest, sovereignty or chances of survival.

The best, although by no means infallible, safeguard against collective human aggression is to build political institutions that protect us against dictators and keep governments in check. By that token neither the Germans nor the Japanese have done badly since 1945.

Outsiders' concern should be that their institutions continue to be open and democratic — or, in the case of Japan, become more so — and not whether their leaders apologize enough for the past.

Germans have apologized enough. And if they continue to be bothered by a guilty national conscience, they should not blame foreigners. For that could only serve to confirm the famous prediction that the Germans will never forgive the Jews for Auschwitz.

The writer, a former Israeli ambassador to the United Nations, contributed this comment to the International Herald Tribune.

Remembrance Means Forestalling the Torches

By Gideon Rafael

JERUSALEM — A memorial conference organized by the state government of Thuringia for the 60th anniversary of the pogrom night called Kristallnacht by its Nazi perpetrators offered me an opportunity to review German-Israeli relations. What follows here is adapted from my address in Erfurt.

The torching of synagogues throughout Germany on Nov. 9, 1938, was not the first burst of arson by Hitler's thugs. The torching of the Reichstag, soon after his seizure of power, preceded it in February 1933.

A few weeks later, on May 10, the flaming torch illuminated Germany's descent into the cultural wilderness when it lit the faces of those who burned the books of Germany's most distinguished authors — "out of reverence," Goebbels proclaimed, "for the immortal spirit of Goethe."

I was reminded of some lines by Primo Levi, the Jewish-Italian writer and survivor of Auschwitz:

Think, oh think,
Could this really be a man
Who has to fight for half a loaf.
Who received a death sentence
with a mere "yes" or a mere "no"?

Could this really be a woman
who no longer has hair nor even
a name, who has expressionless eyes?

Think, oh think about all
these things.
Which really happened.

Primo Levi, unable to bear the memory, parted from life.

EIGHT kilometers separate the profoundest depth of human depravity at Buchenwald from the sublime nobility of the universal human spirit of Johann Wolfgang von Goethe, whose house in Weimar bears vivid testimony to it.

INTERNATIONAL

U.S. and Iraq Exchange Threats Over Aircraft Patrols in No-Flight Zones

The Associated Press

WASHINGTON — The United States will continue to enforce no-fly zones over Iraq in the face of fresh challenges to its patrols as Saddam Hussein moves to buck tight U.S. and UN controls over his nation, a Pentagon spokesman said Tuesday.

A day after a U.S.-Iraqi missile exchange in northern Iraq, Vice President Taha Yassin Ramadhan vowed to fire again at any aircraft in Iraq's view, violated its airspace. He also suggested that Iraqi planes would travel into the no-flight areas. In response, the Pentagon said that U.S. and British warplanes would not be intimidated by the latest Iraqi threats, which came amid an atmosphere of increased tension after the

clash Monday in which four Iraqi soldiers were reportedly killed and seven wounded.

"As the president said yesterday, we will continue to enforce the no-fly zones," Lieutenant Colonel Stephen Campbell said Tuesday, referring to remarks made by President Bill Clinton. "Nothing has changed."

Colonel Richard Bridges said that American flyers were prepared to act against any Iraqi aggression: "I'm sure that pilots will be much more alert. There'll be more adrenaline running. But the mechanisms to respond appropriately are already in place."

There were no immediate reports of Iraqi aircraft in the northern and southern no-flight zones, according to Colonel Bridges.

Warplanes patrolling in northern Iraq did not fly Tuesday because of weather conditions.

The Iraqi vice president issued a direct challenge: "Our resistance will continue against any penetration," he said. "The war is still on."

Iraq has always questioned the legitimacy of the no-flight zones, but has rarely engaged U.S. and British warplanes. Now, however, Iraq appears to be trying to provoke the United States as part of a calculated strategy to get out from under strict UN economic sanctions and other controls, foreign policy experts say.

"What you're watching here with Iraq challenging the no-fly zones is just the noisiest part of a very broad strategy," said Tony Cordesman, an analyst at the Center for Strategic International

Studies. "It's a visible sign of resistance."

Mr. Saddam's rejection of UN weapons inspections prompted four days of U.S. and British missile and bombing strikes this month. Baghdad also is suggesting that it might not renew a two-year-old UN oil-for-food program next year designed to ease the impact of economic sanctions on the Iraqi people.

On Monday, U.S. warplanes fired three missiles and six precision-guided bombs to strike an anti-aircraft site in northern Iraq that had launched three missiles at U.S. fighter jets on patrol.

■ Patrols Ended, France Confirms

France confirmed Tuesday that its planes had stopped participating in allied flights over south-

ern Iraq since Dec. 16, a decision prompted by the U.S.-led bombings against Iraq. The Associated Press reported from Paris.

"The obvious reasons for the French withdrawal were the chain of events that led to the air strikes," said a Foreign Ministry spokeswoman.

The Iraqi vice president said in a television interview Sunday that France had probably stopped its participation in the U.S.-led patrols, but that he was unable to confirm the news. France halted the flights on the first day of the strikes by U.S. and British forces aimed at punishing Baghdad for blocking UN weapons inspections.

France withdrew from the so-called Northern Watch mission in 1996, but its warplanes were still patrolling the skies of southern Iraq.

APOLOGY: Cambodian Is 'Sorry'

Continued from Page 1

of purges in which many thousands of people were tortured and killed.

Asked whether the Khmer Rouge were indeed responsible for large numbers of deaths, he said, "Please leave this to history. This is an old story; please leave it to the past."

Mr. Khiem Samphan was similarly circumspect on the question of guilt, muttering at one point, "To say who is wrong and who is right and who is doing this and who is doing that, etcetera," then rephrasing himself: "The developments of history in our country are very complicated. Please don't keep stirring things up."

He said he had listened Tuesday to a foreign radio broadcast in which Cambodian citizens described the losses of family members at the hands of the Khmer Rouge.

"It is normal that those who have lost their families, that they — what to say — feel some resentment," he said, speaking in English. "But I feel that most of our compatriots understand that we have much more problems to resolve at the present and in the future and we have to forget the past."

He added: "Let bygones be bygones" is the best solution for our country, because it is the only way to reach national reconciliation. It is the sine qua non condition for peace and stability in our country."

Mr. Hun Sen said the same thing on Monday in somewhat less high-flown language: "We should dig a hole and bury the past." Despite his past assurances that he wanted to set up a tribunal to try Khmer Rouge leaders for crimes against humanity, Mr. Hun Sen now said the Khmer Rouge leaders should be greeted "with bouquets of flowers, not with prisons and handcuffs."

Nevertheless, a diplomat said work was continuing at the United Nations to lay the groundwork for any possible future trial.

The surrenders by Mr. Khiem Samphan and Mr. Nuon Chea virtually complete the collapse of the Khmer Rouge movement that began more than two years ago with widening defections.

During the press conference, Mr. Khiem Samphan was clearly distressed by a drumbeat of harsh questions. Would he at least tell the Cambodian people he was sorry for their suffering, a foreign reporter asked. "Yes," he said, barely audibly. "Sorry, very sorry."



Children in Baghdad submitting coupons Tuesday to receive their monthly ration of state-allocated soup.

Loyalty of Netanyahu Aides in Doubt

Reuters

JERUSALEM — Prime Minister Benjamin Netanyahu's hold on his Likud Party appeared to slip further on Tuesday as his top two cabinet colleagues signaled that he could lose their loyalty in early elections due May 17.

Defense Minister Yitzhak Mordechai, who tops the polls as Israel's most popular minister, criticized Mr. Netanyahu's handling of peace moves with the Palestinians and said he was wavering over his political future in the right-wing party.

Foreign Minister Ariel Sharon, who only two days ago said he did not covet Mr. Netanyahu's job and called for unity in Likud's fractious ranks, said he could see himself a candidate to lead Israel under unspecified "special circumstances."

The embattled Mr. Netanyahu could take heart from the fact that a parliamentary committee agreed to set elections for next May 17 — 22 years to the

day since Likud's first election victory and far enough down the road to patch up party squabbles.

Parliament voted last week to advance elections from late 2000 after Mr. Netanyahu lost the support of right-wingers who believed he had betrayed them by agreeing to cede West Bank land in a peace deal with the Palestinians.

"I am deliberating," Mr. Mordechai told Israeli Army Radio when asked whether he was nearing a decision about his political intentions.

"For today, I am a Likud man," he said. "If I reach a different conclusion, I'll let the public know."

Mr. Sharon, an influential Likud powerbroker, raised eyebrows on Monday when he said he could be a candidate for the country's top job "in circumstances that necessitate it."

He refused to elaborate on comments he made only a day after he called on Likud faithful to unite behind Mr. Netanyahu.

"I have nothing to add to what I said yesterday," Mr. Sharon said Tuesday. "Use your heads and you'll understand."

■ Israeli Threat to Gaza Airport

Israel has threatened to close down the Palestinian-run Gaza airport over a security violation, a move that could further undermine the already fragile peace process, The Associated Press reported Tuesday from Jerusalem, quoting an Israeli official.

Palestinian airport workers refused to allow Israeli security officials to check the identity of passengers who arrived on an Egyptian plane on Sunday afternoon, most of whom worked for the Palestinian Authority, according to the official, Nir Yarkoni, the Civilian Airport Authority director.

"The Transportation Minister asked me to tell the Palestinians that if this continues, we won't allow the airport to operate," Mr. Yarkoni said.

Mr. Hun Sen said the same thing on Monday in somewhat less high-flown language: "We should dig a hole and bury the past." Despite his past assurances that he wanted to set up a tribunal to try Khmer Rouge leaders for crimes against humanity, Mr. Hun Sen now said the Khmer Rouge leaders should be greeted "with bouquets of flowers, not with prisons and handcuffs."

Nevertheless, a diplomat said work was continuing at the United Nations to lay the groundwork for any possible future trial.

The surrenders by Mr. Khiem Samphan and Mr. Nuon Chea virtually complete the collapse of the Khmer Rouge movement that began more than two years ago with widening defections.

During the press conference, Mr. Khiem Samphan was clearly distressed by a drumbeat of harsh questions. Would he at least tell the Cambodian people he was sorry for their suffering, a foreign reporter asked. "Yes," he said, barely audibly. "Sorry, very sorry."

GATES: Microsoft Chief Reacts to Antitrust Suit With Heart, Not Head, Associates Say

Continued from Page 1

one of the few people willing to speak on the record about Mr. Gates, who declined to be interviewed.

A Microsoft spokesman, Greg Shaw, disagreed. Through the course of the trial, he said, "I've seen him more rational, even more relaxed and a lot more thoughtful about how to react and respond" than at times in the past, "and still extremely convinced that what he's done and what we're doing is right."

Friends say that change must begin with Mr. Gates, whose personality and drive have shaped Microsoft from the days more than 25 years ago when it was a roomful of young people in raty T-shirts. He must think of himself as an industry leader responsible for helping the industry grow, rather than as head of a company fighting to stay in business.

"Bill is clearly going from being an undergoing to an industry leader — and he needs to internalize that," said David Marquardt, a member of Microsoft's board of directors. Mr. Marquardt was

one of the few people willing to speak on the record about Mr. Gates, who declined to be interviewed.

When the suit against Microsoft was filed in May, said Heidi Roizen, a friend of Mr. Gates' who occasionally consults for the Microsoft, "I think his first reaction was disbelief, like, 'How could this be?' And there's a sense of anger and frustration that this could be done and was happening to him."

Friends say that these days, Mr. Gates' legendary concentration is ratiated.

Though he does not take part in the frequent conference calls senior executives hold to discuss strategy in the case, he does find his mind wandering to the dispute six or seven times a day. "It's a huge distraction," said one associate.

Press accounts that portray Mr. Gates as scheming have also grated on him. "The thing that bothers him is that he is the product of Microsoft," Mr. Marquardt said. "The thing that bothers him is that he is upset that the chief of Netscape Communications Corp., James Barksdale,

one of the star witnesses against Microsoft, has been portrayed so favorably in press coverage.

"It bugs him that Barksdale is a hero while he has been demonized," Mr. Marquardt said.

Over and over, associates say that Microsoft still sees Microsoft as a company that must fight to stay alive.

His views of Microsoft were strongly shaped during the 1980s, when the company was a pip-squeak and others — such as Lotus Development Corp., WordPerfect Corp., and Novell Inc. — held commanding leads.

He watched as those companies became distracted and at times indifferent to emerging technologies — and then faltered. As a result, Mr. Gates was determined not to let Microsoft become complacent.

Any time a competitor releases a new product, Mr. Gates analyzes it, and worries. "This thing can kill us" is his frequent lament.

Microsoft insiders who say they are trying to convince Mr. Gates that Microsoft must change with the times, stumble when they try to explain precisely what the company should do differently. But it appears to boil down to showing a bit more sympathy for other companies, to accepting that Microsoft is secure as a leader and can afford to let other firms prosper as well.

The clearest way to do that would be to have a sign from Mr. Gates, one as heartfelt and energetically expressed as the message he sent out in December 1995 declaring that Microsoft had to refocus its work on the Internet.

Throughout the case, Mr. Gates has been haunted by the shadow of IBM. The computer company became Microsoft's springboard from the ranks of start-ups into the big leagues when it asked the fledgling software firm to provide the operating system for its first personal computer in 1981. IBM had been heavily scarred by its 12-year antitrust battle with the government, which ended that year when the government dropped its case.

As that case progressed, IBM's staff of lawyers played an expanding role in setting company policies. "IBM ultimately self-destructed because the case made the company more cautious," said Mike Maples, who spent 23 years at IBM and then served as one of Microsoft's top three executives until he retired in 1995. "That's a lesson that Microsoft is trying not to repeat — and is doing so successfully."

YEMEN: 4 Hostages Killed

Continued from Page 1

began negotiations with the kidnappers. About 200 Yemeni security force members encircled the area.

Governor Ahmad Ali Mohsen of Abyan Province, where the kidnapping took place, was leading the talks with heads of the Al Fadi tribe, an official at the governor's office said. He was accompanied by Islamic personalities influential with the abductors, the official said.

The kidnappers demanded the release of their leader Saleh Haidara Arwi, who was arrested two weeks ago as part of a crackdown on vigilantes enforcing strict Islamic rules in southern Yemen.

The abduction Monday was the largest single kidnapping in Yemen in at least two years, officials said. Tribesmen kidnapped 13 Italians in the summer of 1997, prompting the government to threaten stiff punishments and increase security in areas visited by tourists.

This month, tribesmen abducted four German tourists. They have been in captivity since Dec. 6. Yemeni newspapers said the abductors had demanded a ransom of 90 million rials (about \$66,000), luxury cars, houses, military posts and state jobs for senior tribal members.

(Reuters, AP)

ASIANS: After Economic Meltdown, Meanest Job Market on Record Forces Students to Rethink Old Work Ways

Continued from Page 1

ing at Trisakti University, Mr. Assegaff drew his fingers through the bloody puddle where one of his classmates — a cheerful 20-year-old who wanted to be a pilot — had died minutes before a bullet through the heart.

Four students died last May in that violent campus rally against the Indonesian government's handling of the economy. Just as the deaths of four student protesters at Kent State University in 1970 shook a generation of American youth, the bloodshed at Trisakti shattered Indonesian youth's trust in their government.

"I was so sad and angry," said Mr. Assegaff, 22. "It made me realize that I have to fight for the people of this country, fight to give them a voice in government. I have to be a member of Parliament if not me, who else?"

More thoughtful than radical, Mr. Assegaff said his eyes were forced open by the financial crisis that exposed Indonesia's political rot. There was always a sad gap between the relatively few with cars and college educations and the masses who could not afford proper food and medicine. But the number of desperately poor exploded when the economy collapsed.

"The financial crisis is but a prelude," said the Thai foreign minister, Surin Pitsuwan. "Asia is once again in the midst of a major transformation."

The blood was still warm; Alwi Assegaff will never forget that Crouched on the white tile steps of the main build-

ing at Trisakti University, Mr. Assegaff estimated that only 20 percent of the Class of '99 will have jobs when they graduate in March. And they are the privileged class here; only about 5 percent of Indonesians earn a college degree.

Japan and Indonesia are each a chain of islands in Asia; that may be the end of the similarities. Instead of tanks parked outside looted stores in Jakarta, limousines idle in front of boutiques in Tokyo. But even rich Japan is plagued by bankruptcies and debt. And its economic plunge is also stirring significant change.

As Yoichi Matsuda, 21, sat on an outdoor bench in Harajuku, the epicenter of Tokyo's hip youth culture, he talked about what the Japanese recession has meant for him and the rest of the Class of '99.

The nation's bureaucrats have lost prestige as they are increasingly blamed for the recession, and even the biggest companies no longer guarantee careers and employment for life. That has made it acceptable, even preferable, to work for a small company, take a chance on a start-up venture or try a foreign firm.

"It is easier to go to a different way," Mr. Matsuda said, as one Mariah Carey hit after another pulsed out of the HMV music store. "I wasn't made to be a cog in a wheel, and now it's easier not to be."

Proof of achievement in Japan for decades has been a business card that said Mitsubishi or Toyota or any of Japan's other platinum-plated companies — or, better yet, the ultra-elite Ministry of Finance. But, as Akihiko Tanaka, a scholar at Tokyo University, said, "The one old yardstick has been destroyed. Now people can find yardsticks that suit themselves."

Those yardsticks increasingly have foreign names, like Goldman Sachs and Merrill Lynch and IBM, which offer advancement based more on merit than age, often better pay and more opportunity for innovation. Even two or three

years ago, many of America's top firms could not recruit a single person from elite Japanese universities; now American firms top surveys of the most sought-after jobs.

I was interested in American firms when I saw Yamazaki Securities go bankrupt in front of my eyes," said Hiroshi Shigemasa, 23, a Sophia University senior who was working in the same building with the century-old trading company when it collapsed last year.

In April, Mr. Shigemasa will start working in risk management for the American firm J. P. Morgan.

The foreign competition for the nation's twentysomething brainpower has forced many Japanese companies to blow the cobwebs out of their traditional practices. They have revamped the way they hire people, what they look for, and how they use young talent.

But some here believe the changes to Japan's economy have been little more than cosmetic. All the talk about foreign companies, a deregulated economy and bigger homes because of falling land prices does not mean much if the unemployment rate continues to climb, businesses keep going bankrupt and a sense of gloom keeps dragging the nation down.

مِدَارُ الْأَصْلِ

Strauss Updated With Showbiz

Comden, Green and Fledermaus'

By Anthony Tommasini
New York Times Service

NEW YORK.—In the Broadway revival of Leonard Bernstein's "On the Town," there is a hilarious send-up of a pretentious, boozey voice teacher called Madame Maude P. Dilly, played with gusto by Maudie Testa.

In the scene, the character Ivy Smith, who works as an exotic dancer at Coney Island but harbors higher aspirations, has come for her lesson. Madame Dilly puts Ivy through the vocal warm-up regimen of opera singers. For good measure, she throws in a stern admonition about dedication to art:

*Do do do
Love life must go,
If you'd be a nightingale
instead of a crow.*

The lyrics are by Betty Comden and Adolph Green, who also wrote the book for this 1944 show. This would not be the only time the celebrated team of lyricists poked fun at opera. In "Two on the Aisle," a 1951 collaboration with the composer Jule Styne, they wrote a duet called "Catch Our Act at the Met," in which Bert Lahr, as a fur-clad Siegfried, and Dolores Gray, as a leggy chorus line Brunnhilde, fantasize about bringing some showbiz verve to the citadel of opera.

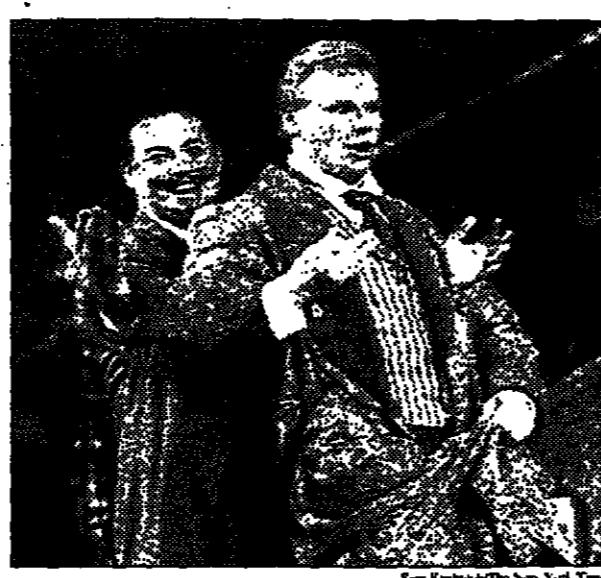
Opera always has been fair game, and a pretty easy target, for Comden and Green, both 83 and professional partners for 54 years. But they never expected to actually enter the inner sanctum of the opera house.

Last year, however, David Kneuss, the executive stage director at the Metropolitan Opera, approached them with an operatic idea that seemed right for them. The result was "Die Fledermaus," the popular operetta by Johann Strauss, with a new book and spoken dialogue by Comden and Green.

Some of the problems in preparing new dialogue for this 1874 operetta are built in, as Comden and Green discovered. "The dialogue has to fit Strauss's score," Green said. "It's very difficult. We had to find a way to get in and out of every aria and ensemble, and keep it consistent with the existing music."

The original version of the opera, with lyrics and spoken dialogue by Carl Haffner and Richard Genée, was based on a French comedy by Henri Meilhac and Ludovic Halevy, the libertines of "Carmen." The humor in the original is cynical. Set in the Belle Epoque years of Vienna, the story takes place on one long, inebriated night.

When it begins, Rosalinde, the young wife of Gabriel von Eisenstein, a well-to-do Viennese citizen, is being serenaded outside her window by a former lover, Alfred. The song comes at a dangerous time, for Rosalinde has a weak spot for tenors, and her husband is about to report to prison to serve five days



Earle Patriarco, left, and Bo Skovhus as Eisenstein.

for assaulting a police officer. Eisenstein bursts into the room, furious that his incompetent lawyer, named Blind, has somehow managed to get his sentence increased to eight days.

But Eisenstein's friend, Dr. Falke, shows up with a plan. Prince Orlofsky, a bored, wealthy Russian eccentric, is throwing a masked ball, and Falke wants his friend Eisenstein to have one last fling, without his wife, at the prince's party. Dr. Falke is gazing even for being the butt of a practical joke: Eisenstein, Rosalinde and Adele, their maid, are being manipulated by Falke to appear at the ball, where infidelities will be revealed and scores settled.

In their new book, Comden and Green have Dr. Falke call the little domestic comedy he is arranging "She Knew but He Didn't Know She Knew That He Didn't Know That She Knew."

The operetta was a success at its 1874 premiere, and from the start a tradition developed, sanctioned by Strauss, of allowing some footloose into the show. But audiences at the Met now expect Strauss's wry operetta to be a gafeest, and this has led to lame humor and dumb sight gags. So the task faced by Comden and Green, as they explained, was to spice up the dialogue without resorting to bawdy jokes and topical humor.

Strauss's operetta is being performed in the original German (with title translations available), but the new dialogue will be spoken in English.

For the first time in many years, these veterans show people will hear a work of theirs performed without any amplification. "In the old days, audiences worked harder," Comden said. "They leaned forward and paid attention."

The cast includes Carol Vaness as Rosalinde; the Danish baritone Bo Skovhus in his Met debut as Eisenstein, and the American conductor Patrick Summers, also in his Met debut.

Now that Comden and Green have worked in an opera house, they are willing to try it again. After all, Comden said, "it's still the theater."

This Was the Year That Wasn't

By Sheridan Morley
International Herald Tribune

LONDON.—It has, in essence, been one of those years; the miracle was not that there was good theater, but that there was any theater at all.

Briefly to recap: We now have a pre-millennial breakdown in which no single state-subsidized company, be it drama or opera or dance, is not in some kind of artistic, managerial, financial or architectural meltdown. The still new government has, despite many promises to the contrary (politicians in Britain are always wildly pro-arts until they take office), behaved vastly more apathetically to all arts organizations than was even dreamed of by John Major or Margaret Thatcher.

The Lottery has been an unqualified disaster, encouraging hitherto silent theaters to embark on ludicrously overambitious building projects that not only can now never be completed, but even if they were to be, could never be filled by paying audiences.

Apart from those in government, the roll-call of guilty men can only be started in the space available here. First, Stephen Daldry, for announcing his imminent departure from the Royal Court when the burrowing under Sloane Square for rebuilding had only just begun and still shows no sign of ending. Daldry again, for allowing (with others) the impression to spread through the press that the Old Vic had been "saved," when in reality all that has been achieved is what was already available under much of the Murdoch regime, a rent-free availability but no actual cash for productions or advertising, or even for paying the ushers.

Adrian Noble, for failing to resign honorably as director of the Royal Shakespeare Company at a time when the company is clearly in midlife crisis; uncertain of what it should be playing where and for whom, reeling around

from West End transfers to a half-out-the-door policy at the Barbican. The Barbican would be vastly better off (as has been demonstrated all summer) were the RSC to quit entirely and leave John Tusa to program his admirable world-theater seasons without having to unscramble them again when the RSC does design to limp briefly in from Stratford, having first made sure that any likely winners it happens to have hit upon (such as the current Robert Lindsay "Richard III") go straight into the more commercially satisfying West End.

Oh yes. Daldry again, this time for tearing the hearts out of two beautiful West End theaters (the Ambassadors and the Duke of York's) while clutching up a third with his endless "An Inspector Calls," thereby ensuring that almost half the stock of good and small commercial theaters is locked off. If you count the others occupied on a full-time basis by "The Mousetrap" and "Woman in Black" and the Reduced Shakespeare Company, you begin to understand why countless small-scale shows around the country and the fringe of solidarity and confidence in the city center. Dulcie Gray, for deciding only weeks after the death of her husband and partner, Michael Denison, that she would spend the next year on the road in a first staging of "The Ladykillers," as if to reaffirm the importance of regional touring, which was always at the heart of their partnership.

And Peter Hall, for maintaining against all odds a company that only finally founded as we reached Christmas. That it is he who should now be trying to make a living in America, while the companies he created at Stratford and the National are being so badly run by those he indirectly trained and sponsored, seems to me the bleakest joke of all.

And all I can do now, in wishing you the happiest of new years, is to promise to look on the bright side of theater in 1999, just as soon as I can find it.

CROSSWORD

ACROSS

- 1 Striptease
- 5 Storied rabbit
- 10 What's — to me?
- 14 Sierra Club concern: Abbr.
- 15 One barreled from a U.N. no-fly zone
- 16 Say again.
- 17 How Oliver categorized his subjects
- 20 Smoothly change the subject
- 21 — always say
- 22 Bay
- 23 Met, Jets or Nets
- 24 California
- 25 Grecian, e.g.
- 26 Putt house, e.g.
- 27 It might bring you up to scratch
- 28 Wrestling hold for a recuse?
- 29 — number on
- 30 Zola heroine
- 31 Musically
- 32 House, Ind.
- 33 — Idols, for short
- 34 Colchester's county
- 35 Ruler with a title
- 36 Standard type, briefly
- 37 Camup catcher?
- 38 Organized bribery?
- 39 Campout catcher?
- 40 Organdie
- 41 Bigoted
- 42 Neighbors
- 43 Neighbors
- 44 Come again?
- 45 Step on it.
- 46 Rebel leader of

Solution to Puzzle of Dec. 29

AMMO **ABET** **SCAR**
PIANO **MONG** **TADA**
ERICH **BIRD** **AVIS**
CHILLED **SHRIMP**
SILK **GEE** **MOTLEY**
SURRIED **GRAS**
JOHNSON **HALOGEN**
SHAIH **SHAH** **PHON**
LAISSES **MAIGAO**
CLAM **CAKING**
ARTIAUD **BOS** **NET**
LOCUSTERS **QUE**
SCICK **WATH** **USERS**
MUHL **EVREN** **ENROL**
TABLE **DIEINT** **ABSTO**

DOWN

- 1 Chair supports a Growing room
- 2 A Oil Fluid
- 3 Magnifying glass carrier, maybe
- 4 Memme —
- 5 Blub, e.g.
- 6 Walks softly
- 7 Wiggle
- 8 The dark side
- 9 Rainy day reserves
- 10 Neighbor's — Abbr.
- 11 Neighbor of Saudi Arabia
- 12 Big part of many a family budget
- 13 Interjections of surprise
- 14 Step on it.
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- 318 Neighbor of Saudi Arabia
- 319 Neighbor

NYSE

Tuesday's 4 P.M. Close
The 2,600 most traded stocks of the day.
Afternoon prices not reflecting late trades elsewhere
The Associated Press

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Pakistan

Continued on Page 14

Herald Tribune
BUSINESS/FINANCE

WEDNESDAY, DECEMBER 30, 1998

PAGE

Frenzy Over Internet Stocks Propels Schwab to New Heights

By Joseph Kahn
New York Times Service

NEW YORK — A few weeks ago, it seemed as if American corporate giants need not worry too much about the Internet. After all, if upstart companies that specialize in on-line commerce were ever to realize investors' much-hyped profit and revenue expectations, Fortune 500 members could always just buy them.

No longer. The explosion in share prices of companies linked to the on-line world has been so spectacular that the market values of some Internet companies are eclipsing those of more established competitors, even when the on-line companies still lag badly in terms of profits and revenues.

This week, the Internet lodged another such milestone, this time shaking some core assumptions in the finance industry. The market value of the San Francisco-based discount broker Charles Schwab & Co. — whose business is focused on the Internet — reached \$25.5 billion Monday, putting it ahead by a nose of the industry standard-bearer and Wall Street heavyweight, Merrill Lynch & Co., which was worth \$25.4 billion at the close of trading.

Investors have also been snapping up shares of Internet retailers after data showed strong growth in Internet shopping. Trading in Internet stocks was mixed Tuesday. (Page 12)

This meant that Schwab's market capitalization sank back below Merrill's, and Wall Street investors still value one big investment bank, Mor-

gan Stanley Dean Witter Inc., above both Schwab and Merrill.

But Schwab's helicopter-like ascent — its shares had risen 70 percent in the space of eight trading sessions through Monday — is unusual, analysts said, both in its speed and perhaps in its challenge to the way Wall Street treats the on-line craze.

Consider that just two weeks ago, the market was awash with unconfirmed rumors that Merrill might consider buying Schwab to give it a presence on-line, a possibility that now seems far-fetched. "Merrill has to be concerned about this," said Richard Strauss, securities industry analyst for Goldman, Sachs & Co. "There is significant value in Merrill for many reasons. But the Internet is clearly something that they have to make a top priority."

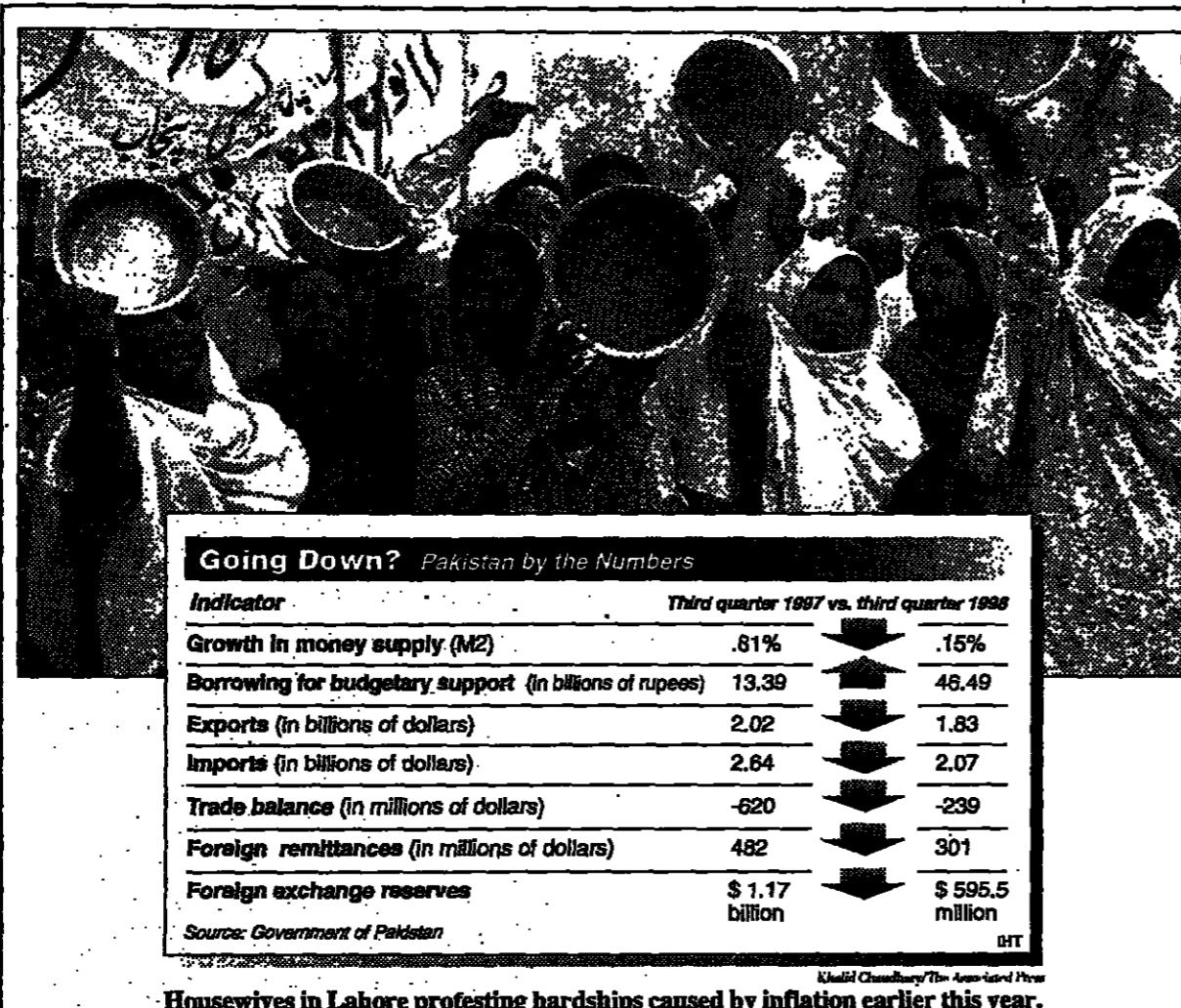
Schwab has been swept up in the Internet stock frenzy. America Online Inc., perhaps the best-known Internet entertainment and commerce company, recently surpassed Walt Disney Co. in market value. Amazon.com Inc., the on-line bookseller, has a market value well above the combined values of two leading rivals, Barnes & Noble Inc. and Borders Group Inc., whose businesses are still concentrated in conventional retailing.

Schwab, unlike Merrill and other rivals, has transformed itself from a traditional broker, albeit one that specialized in discounted fees, into a company that does most of its business on-line. Merrill, meanwhile, has delayed plans to offer a

See INTERNET, Page 12

Nasdaq						
Symbol	Vol.	High	Low	Chg.	% Chg.	Prev.
CNET	22,029	505	495	+25	5%	480
AMZN	22,027	405	395	+10	3%	395
DISNEY	22,027	405	395	+10	3%	395
GOOG	22,027	405	395	+10	3%	395
INTC	22,027	405	395	+10	3%	395
MSFT	22,027	405	395	+10	3%	395
ORCL	22,027	405	395	+10	3%	395
SYB	22,027	405	395	+10	3%	395
YHOO	22,027	405	395	+10	3%	395

Closing stock prices on Monday reflect the surge in enthusiasm for anything related to the Internet.



In Pakistan, an Imploding Economy

International Fallout From Nuclear Tests Rocks Teetering Industry

By Miriam Jordan
Special to the Herald Tribune

LAHORE, Pakistan — Over the years, Tariq Saigol has built up a blue-chip international clientele and a reputation for supplying quality fabrics for American and European home furnishings. Then in May, Pakistan conducted nuclear tests, sending an already fragile economy on a downward spiral and forcing Mr. Saigol to launch his own damage-control exercise.

"I have had to go and hold the hands of reputable companies to assure them that they'll get their goods," said Mr. Saigol, chairman of Kohinoor Maple Leaf Group, one of the largest conglomerates in Pakistan. Earlier this month, Mr. Saigol dispatched two senior executives to the Charlotte, North Carolina, headquarters of Springs Industries Inc., a major client, "just to tell them we have enough resources to manufacture and deliver their goods," he said. It is a grim state of affairs for an industrialist whose father, a migrant from Calcutta, started the first textile mill in Pakistan after partition in 1947. But at least Kohinoor is surviving.

In the mansions of this pleasant, tree-lined city in Pakistan's cotton belt, conversation these days inevitably drifts to the dozens of textile mills that are idle since the nuclear blasts. People worry about social upheaval: Islamic fundamentalism is becoming more appealing to the poor, disaffected youth in urban areas.

Indeed, the nuclear tests and their aftermath seem to confirm what many have known for years: This impoverished state desperately needs an economic overhaul.

Before this country of 140 million people detonated nuclear bombs, the economy was expected to expand 5 percent this year. But key indicators for the first fiscal quarter, which ended Sept. 1, paint the picture of an economy that has virtually ground to a halt.

Exports fell by 9.3 percent and imports by 21.5 percent against the same period last year. Remittances from Pakistani workers abroad fell by 37.6 percent from 1997. Inflation was 6.7 percent, down from 11 percent in 1997, but



independent economists estimate the actual figure is about twice as high.

"It's like plywood coming undone," said a foreign envoy in Pakistan. "Here's a new nuclear power, and the economy is in the process of self-destruction."

Meanwhile, Pakistan's population grows at 3 percent annually. Social services are virtually nonexistent in much of the country. In Lahore, considered the cultural capital, there are often 100 students to a single teacher in state elementary schools, and no desks, chairs or chalkboards. About two-thirds of all Pakistani women are illiterate.

Shahid Kardar, an economist and director of software consulting-firm Systems Ltd. in Lahore, said: "The state and private sectors are unable to provide jobs at a pace at which people are looking for jobs." Late last month, Pakistan reached an agreement with the International Monetary Fund that could lead to a \$3.5 billion rescue package, including rescheduling of private debt. Although the deal has yet to be approved by the Fund's board, Pakistani leaders hailed the agreement as a victory. Islamabad had been on the brink of defaulting on its \$32 billion foreign debt with its reserves dipping below \$500 million.

Finance Minister Ishaq Dar said that Pakistan would avoid defaulting on its external debt as its reserve had climbed to \$1.021 billion after it received \$325 million from the United States for jet fighters Pakistan paid for but never received, Bloomberg News reported Tuesday. That will be enough to cover the \$230 million in debt payment Pakistan has to pay next month, Mr. Dar said.

But Pakistan needs more than emergency aid to create a viable economy. The IMF has long sought for Islamabad to widen the tax net, crack down on corruption and undertake structural reforms in its banking sector. Revamping the inefficient state water and electricity utility, one of the biggest drains on government finances, is also a must.

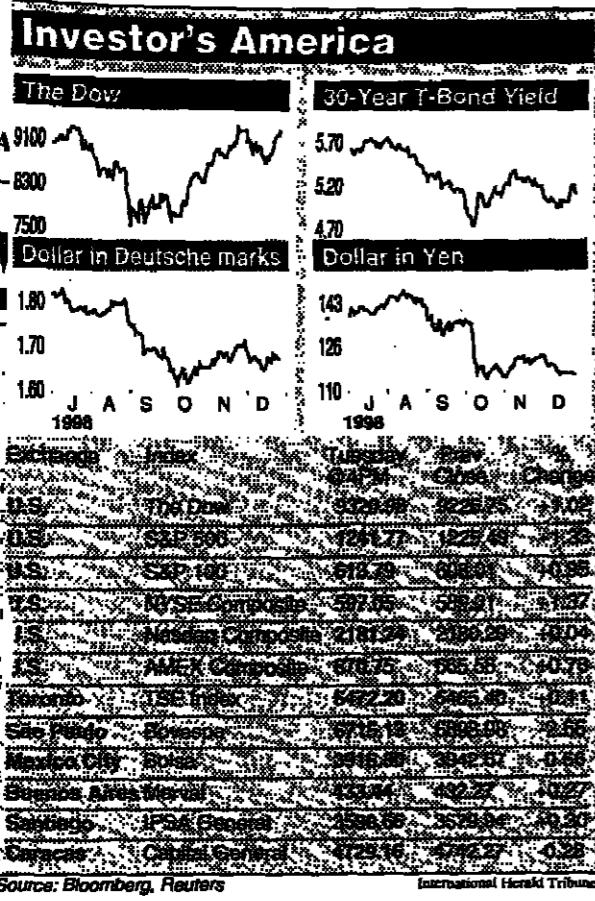
With the IMF deal, "We got a breather that will see us through the next six to eight months," Mr. Kardar said.

See PAKISTAN, Page 17

CURRENCY & INTEREST RATES

Cross Rates		Dec. 29		Libid-Libor Rates		Dec. 29	
1	U.S.	£	DM	FF	AT	SEK	Yen
Australia	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Austria	1.065	1.015	20.025	1.015	1.015	1.015	1.015
Belgium	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Canada	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Denmark	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Finland	1.05	1.00	20.025	1.00	1.00	1.00	1.00
France	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Germany	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Iceland	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Ireland	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Italy	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Japan	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Malta	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Netherlands	1.05	1.00	20.025	1.00	1.00	1.00	1.00
New Zealand	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Norway	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Portugal	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Spain	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Sweden	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Switzerland	1.05	1.00	20.025	1.00	1.00	1.00	1.00
United Kingdom	1.05	1.00	20.025	1.00	1.00	1.00	1.00
United States	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Yugoslavia	1.05	1.00	20.025	1.00	1.00	1.00	1.00
Other Dollar Values							
Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Average price	—	—	—	—	—	—	—
Argentina	2.527	2.527	2.527	2.527	2.527	2.527	2.527
Australia	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Austria	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Belgium	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Canada	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Denmark	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Finland	1.05	1.05	1.05	1.05	1.05	1.05	1.05
France	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Germany	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Iceland	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Ireland	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Italy	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Japan	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Malta	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Netherlands	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Norway	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Portugal	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Spain	1.05	1.05	1.05	1.05	1.05	1.05	1.05

THE AMERICAS

**Very briefly:**

- Halliburton Co., a Dallas-based supplier to the petroleum industry, said it would lay off 2,750 workers in its Energy Services Group, in addition to 5,550 layoffs announced in October, because of the slump in oil prices and customers' plans to reduce spending in 1999.
- Sunoco Inc. said it had completed a \$150 million stock repurchase program, reducing its shares outstanding to 90.4 million from more than 107 million in 1995, and authorized a new buyback of the same size.
- IRP Inc., a Nebraska beef and pork supplier, said fourth-quarter earnings would exceed expectations, quadrupling from \$22 million a year ago because of improvements in its fresh-meat business.
- Marriott International Inc. said it had agreed to sell eight assisted-living centers for the elderly to Aureus Group LLC for \$140 million but would continue to manage them.
- Banco Santiago de Chile said it would not pursue control of Banco Torquato of Argentina, Banco de Asuncion of Paraguay and Bancosur of Peru from O'Higgins Central Hispanoamericana SA, after the unit of Banco Central Hispanoamericano SA of Spain declined to extend a Dec. 31 deadline to reach acceptable terms.
- Henry Schein Inc. agreed to buy General Injectables & Vaccines Inc. for \$65 million, plus up to \$5 million based on performance targets.

Conoco to Cut 6% of Work Force

HOUSTON — Conoco Inc., the sixth-largest U.S. oil company, said Tuesday that it would cut 975 jobs, or 6 percent of its work force, and slice its budget for finding and extracting oil and natural gas by about 28 percent because of low energy prices.

The company said it would take a charge of \$30 million against fourth-quarter earnings to cover the moves. The job cuts will save an estimated \$60 million a year.

Shoppers May Be Warming to Net, Holiday Estimates Show

By Leslie Kaufman
and Saul Hansell
New York Times Service

NEW YORK — Estimates of U.S. holiday sales by Internet retailers reveal a big season — even stronger than predictions that earlier this month had seemed overblown.

The sales increases were realized despite glitches that forced consumers to suffer indignities such as being denied access to retailers' Web sites and holiday gifts that did not arrive on time as promised.

The most optimistic estimates of holiday sales came from a subsidiary of InterPublic Group of Cos., whose survey of 1,000 consumers suggested that on-line sales would reach \$5 billion. That would be four times the total sales last year on the Internet between Thanksgiving and Christmas and twice expectations for this year of \$2.3 billion.

Boston Consulting Group and Shop.org, an industry group for electronic retailers, said that year-over-year sales grew 230 percent in the holiday season that just ended. Appareled sales were particularly strong, growing to \$300 million, from less than \$100 million in 1997, Boston Consulting said. In addition, the average order was \$55, up 6 percent from last year's average.

While the data, released Monday, were preliminary, they sent many e-commerce stocks soaring as the market got its first glimpse of the Internet serving a mass retail market.

Still, all these projections were

very preliminary — most retailers will not release actual sales figures until mid-January — and even the most optimistic would be far less than 1 percent of the estimated \$2.6 trillion in retail sales in the United States for the year.

To put the estimates in perspective, Wal-Mart Stores Inc., the largest retailer in the world, had \$118 billion in sales in 1997 — more than 23 times the most optimistic estimate of all holiday retail sales on the Internet this year.

That led many analysts to remain skeptical of the wave of investor euphoria generated by the data.

"There is not enough evidence to justify" InterPublic's \$5 billion estimate, said James McQuivey, a senior analyst at Forrester, an independent market research firm that specializes in Internet commerce.

Moreover, the strong showing did not exactly cause jaws to drop. If an established company such as IBM had reported such increases, it would have been the business equivalent of an Elvis sighting. But Internet sales have been growing rapidly all year.

Julie Wainwright, chief executive of Reel.com, an on-line video store that was recently purchased by Hollywood Entertainment, explained: "Our business is up seven times from last year. But that is not a surprise really. December is up 25 percent from November, and November was up 40 percent from October."

Furthermore, examining just percentage rates of growth can mis-

leading because on-line retailers started with such a small revenue base compared with their brick-and-mortar peers.

Still, the numbers, the first of the post-holiday season, appeared to confirm the potential of the World Wide Web for further expansion.

The shares of electronic retailers

— including some, such as SkyMall

Inc., an in-flight catalog retailer with only a fledgling business on the Internet — rose broadly after the data were released. But it was unclear whether small electronic merchants benefited from the holiday on-line frenzy experienced by the largest Internet retailers. Boston Consulting tracked only the leading electronic retailers in 17 gift categories.

Of most significance to potential investors and e-commerce watchers was the growth of new on-line shoppers. Wendy Brown, director of electronic commerce at America Online Inc., said that a review of holiday figures from the service showed that "at any given point, 20 percent of the people on-line are there for the first time."

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Italian Companies Spin Off Real Estate

Firms Seek to Buoy Investors' Returns

By John Tagliabue
New York Times Service

ROME — Several of Italy's biggest companies, hoping aboard a European trend, are considering spinning off large chunks of their real estate holdings to increase profit and return to their investors.

Enel SpA, the state-owned utility, said it was studying how to spin off \$3.5 billion in property, which is now managed by a wholly owned subsidiary.

Telecom Italia SpA, the national phone carrier, has hired Salomon Smith Barney to help it create one or more subsidiaries to manage its \$4 billion in real estate holdings.

One of Italy's largest banking groups, Banca Intesa SpA, the result of a merger between Istituto Bancario San Paolo di Torino and an investment bank, Istituto Mobiliare Italiano, wants to separate \$1.6 billion in real estate holdings, either by creating a subsidiary or handing them over to a real estate investment trust.

The trend is spilling over into Italy's government holdings. The Defense Ministry recently hired investment bankers to evaluate its real estate; the government social security agency tendered offers for an evaluation of its assets at rents below market level; vacancies were widespread and, thanks to government codding, there was little competitive drive for higher rents or fresh investment.

All are following a trend set recently by a big insurer, Istituto Nazionale delle Assicurazioni, or INA, which spun off an 85 percent stake of its property arm, Unione Immobiliare, or Unim, in November and listed the shares on the Milan exchange. Unim owns and manages properties in Milan and Rome worth \$2.9 billion. INA says it will divest itself of its remaining 14.6 percent stake in Unim within 18 months.

The companies are following a European trend, which until now was centered on financial service companies. Since 1996, Sweden's largest bank, SEB Banke, has spun off a company called Diligentia with \$2.2 billion

in assets, while a group of Finnish state-owned banks and insurance companies parked real estate assets in a company named Sifondi. The French insurers AXA SA and Assurances Generales de France have sold real estate assets to raise capital and reduce exposure to property markets.

"Bricks used to be the European refuge," said Paolo Gonnelli da Ponti, head of Italian investment banking at Salomon Smith Barney. "But with markets demanding higher revenue from assets, we are seeing a focus on the capacity to generate returns."

Much of the activity here is the result of the Italian government's drive in recent years to sell state-owned businesses. These companies, faced with the unaccustomed need to generate greater returns, have been hiring investment banks to devise strategies for putting huge real estate holdings to work.

Moreover, as interest rates plunged, pushed down by the need to prepare for a single European currency, Italian businesses sought to squeeze more competitive yields from their real estate holdings.

The potential for higher yields arose from a history of poor management. Under past state ownership, valuable properties often went to government agencies at rents below market level; vacancies were widespread and, thanks to government codding, there was little competitive drive for higher rents or fresh investment.

With the exception of INA, most Italian companies are still in the study stage. Yet experts agree that over the next several years that could be followed by a wave of spinoffs.

U.S. investment banks, which invented real estate investment trusts, are casting in. In addition to managing the Unim spinoff, Morgan Stanley recently acquired a \$155 million portfolio of non-performing real estate loans from Istituto Bancario San Paolo and is seeking profit by issuing bonds against them.

Higher taxes are expected to keep pressure on tobacco makers to continue raising prices as governments seek to increase their revenue and deter smoking, analysts said. In the United States, Philip Morris Cos. and R.J.R. Nabisco Holdings Corp., the two largest U.S. tobacco companies, recently raised cigarette prices



IT'S REALLY COMING — A dealer talking to his colleagues Tuesday at the Frankfurt Stock Exchange as the board behind him displays 'The Euro Is Coming.' The euro debuts Tuesday in Frankfurt.

European Firms to Lift Cigarette Prices

Bloomberg News

PARIS — Seita SA of France and Tabacalera SA of Spain are increasing cigarette prices, raising expectations for similar moves by other European tobacco makers as governments find them an easy target for taxing.

Seita, France's No. 1 cigarette maker, said Tuesday it would lift prices an average 5 percent next week after the government voted to increase taxes on cheaper brands and draw more money from tobacco makers. Tabacalera, which has the lowest cigarette prices in Europe, will charge about 4.5 percent more to bring its prices closer to those charged by its European rivals.

Higher taxes are expected to keep pressure on tobacco makers to continue raising prices as governments seek to increase their revenue and deter smoking, analysts said. In the United States, Philip Morris Cos. and R.J.R. Nabisco Holdings Corp., the two largest U.S. tobacco companies, recently raised cigarette prices

45 cents a pack as they raise money to pay for state health-care claims.

"Prices in Europe will drift higher," said Jonathan Fell, analyst at Merrill Lynch & Co. "Governments find tobacco an easy target for taxing and nobody complains."

Tabacalera executives said this year cigarette prices in Spain were on average 45 percent lower than the European Union average and that the introduction of the European single currency was an opportunity to narrow the difference.

Canal Plus to Appeal on Film Rights

Compiled by Our Staff From Bloomberg

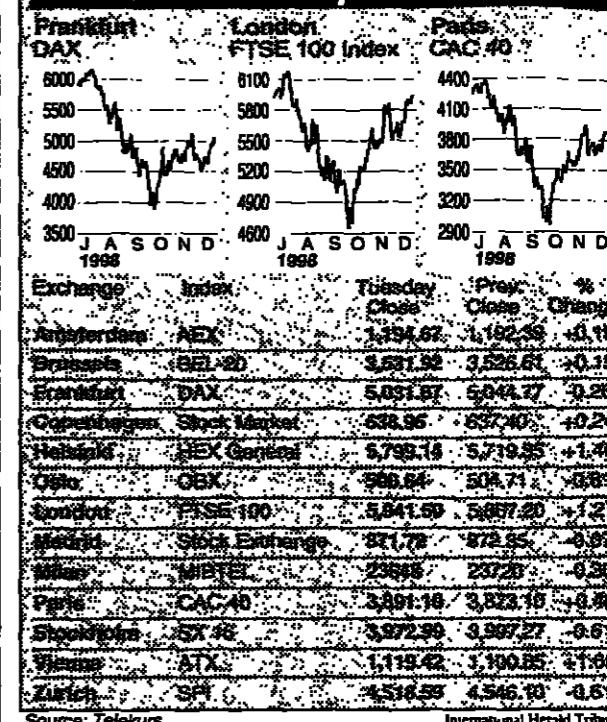
PARIS — Canal Plus SA, the biggest pay-television operator in Europe, said it planned to appeal a decision by French competition authorities that challenged its exclusive rights to broadcast French films a year ahead of its competitors.

Authorities ruled in favor of two competitors — Television Par Satellite, which offers television via satellite, and Multivision, a cable operator — which had complained that Canal Plus's exclusivity clause was an abuse of a dominant market position. The Competition Council made its ruling on Nov. 24 and publicized it late Monday.

Canal Plus, which was fined 10 million francs (\$1.8 million), said the ruling would have "grave consequences" on the obligation by French television stations to finance films. Canal Plus is to appeal the ruling before the Paris Court of Appeal.

(Bloomberg, AFP)

Investor's Europe



Very briefly:

• Saudi Arabia unveiled an austerity budget Tuesday for 1999 after losing a third of government revenues because of record low oil prices. The budget deficit ballooned to 46 billion riyals (\$12.2 billion), more than 2.5 times the predicted figure of 18 billion riyals, the Finance Ministry said in its annual report.

• Belgium's economics minister, Eli di Rupo, said Tuesday he disagreed with Prime Minister Jean-Luc Dehaene that the government might sell its stake in the national phone operator Belgacom. "For the moment I have nothing in my files to privatize," Mr. di Rupo said. "Dehaene is from a different party, he has his position and I have mine."

• Britain's General Electric Co. says it will resume merger talks in the new year with three potential partners: Lockheed Martin of the United States, the French electronics group Thomson-CSF, and British Aerospace. Peter Craine, the GEC spokesman, confirmed the company has held merger talks but said that no decisions have been reached.

• Two days before the new euro currency goes into effect for 11 European Union members, a growing number of Danes believe their country should take part, according to a poll published Tuesday. The survey by the Megaphone polling institute said 54 percent of the 1,009 people surveyed favor Denmark's participation, while 36 percent are opposed. Ten percent were undecided. Denmark is one of four EU countries staying out of the monetary union for now.

• EM.TV & Merchandising AG of Germany has taken over Wavery Productions BV, a Dutch company that owns the rights to a host of popular cartoon characters for the Benelux countries. EM.TV said it had acquired 100 percent of Wavery with the aim of marketing its own and the Dutch company's television and merchandising rights in Belgium, the Netherlands and Luxembourg.

(Reuters, AFP, AP)

WORLD STOCK MARKETS

Tuesday, Dec. 29

Daily prices in local currencies.

Telecommunications

High Low Close Prev.

Amsterdam AEX Index 1,194.47

www.aex.nl

High Low Close Prev.

Frankfurt DAX 3,221.87

www.xetra.de

High Low Close Prev.

Jakarta Composite Index 394.72

www.jci.co.id

High Low Close Prev.

Johannesburg All Share 539.45

www.msci.com

High Low Close Prev.

Kuala Lumpur Composite Index 344.22

www.klse.com.my

High Low Close Prev.

London FTSE 100 3,519.10

www.ftse.com

High Low Close Prev.

Hong Kong Hang Seng 16,247.47

www.hkex.com.hk

High Low Close Prev.

Bangkok SET Index 351.82

www.set.or.th

High Low Close Prev.

Athens Composite Index 542.12

www.wse.com.gr

High Low Close Prev.

Bombay SENSEX 2,244.29

www.sensex.com

High Low Close Prev.

Buenos Aires BME 3,222.41

www.bmex.com.ar

High Low Close Prev.

Brussels BEL 20 2,227.22

www.borse.be

High Low Close Prev.

Copenhagen Borsen 2,227.00

www.copenhagenstockexchange.com

High Low Close Prev.

Istanbul National Stock Exchange 2,294.43

www.borsa.gov.tr

High Low Close Prev.

Taipei Stock Market 2,211.24

www.twse.com.tw

High Low Close Prev.

Stockholm OMX 2,207.70

www.omx.se

High Low Close Prev.

Tokyo Nikkei 2,206.40

www.nikkei.com

High Low Close Prev.

Toronto TSX 2,194.41

www.tsx.com

High Low Close Prev.

Vancouver SIC 2,187.40

www.vancex.com

High Low Close Prev.

Wellington NZX 2,114.24

www.nzx.com

High Low Close Prev.

Zurich SPI 451.89

www.borse.ch

High Low Close Prev.

Wednesday, Dec. 30

Daily prices in local currencies.

Telecommunications

High Low Close Prev.

Amsterdam AEX Index 1,194.47

www.aex.nl

High Low Close Prev.

Frankfurt DAX 3,221.87

www.xetra.de

High Low Close Prev.

Jakarta Composite Index 394.72

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High Low Close Prev.

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Bangkok SET Index 351.82

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High Low Close Prev.

Athens Composite Index 542.12

www.wse.com.gr

High Low Close Prev.

Bombay SENSEX 2,244.29

www.sensex.com

NASDAQ

Tuesday's 4 P.M.
The 1,000 most traded National Market securities
in terms of dollar value, updated twice a year.
The Associated Press

in terms of dollar value, updated twice a year.

The Associated Press							
12 Month Earnings	EPS	Div Yield	PE	Sa 100s	High	Low	Last
Right	Left	Stock					Orgo

NYSE

Tuesday's 4 P.M. Close

(Continued)



J. YOUSSEF

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GLAXO'S INDIVIDUAL
It's interesting to
Egyptian economy
able to consume
pharmacology
its new products

DR. NEGAD SHAW
The growth of
continued crime

DR. SARWAT B.
I personally guarantee

هذا عن الأصل

GLAXOWELLCOME Buys Egyptian Pharmaceutical Firm For \$120,000,000.

In what can be considered the highest bid in the history of Egyptian Pharmaceutical Industries, Amoun Pharmaceutical Industries sold 90% of its shares to GlaxoWellcome Egypt this month, for the sum of \$120,000,000.

Glaxo now owns 9% of the entire Egyptian pharmaceutical market, currently evaluated at \$1,000,000,000.

GlaxoWellcome had previously acquired, back in 1989, the first Amoun factory (ABI) presently called GlaxoWellcome Egypt. During that decade Glaxo went on producing the same Made-in-Egypt wide range of products, plus the same under license range of products that AMOUN was producing. It was the high profitability of that deal that encouraged Glaxo to buy, ten years later, a second Amoun factory.

Next March, Amoun is inaugurating a new Pharmaceutical Complex, the biggest in Egypt so far.



WHY ARE FOREIGN INVESTMENTS ZOOMING IN ON EGYPT?

The laissez-faire policy of the Moubarak regime, its firm commitment towards protecting private enterprise and encouraging foreign investments was the main factor behind this industrial revolution in Egypt.

In order to achieve that goal, the Egyptian government has for the past two decades, invested heavily in an up to date infrastructure in five industrial satellite cities, which allows, as a matter of principle, state of the art industrial products to be manufactured in Egypt.

Having monitored this change GlaxoWellcome was among the first renowned multinationals to catch the wave and sail ahead in Egypt.

DR. YOUSSEF BOUTROS GHALI'S COMMENT DURING THE SALE SIGNING CEREMONY.

"The GlaxoWellcome deal in Egypt shows that a new generation of Egyptian entrepreneurs is now capable of building gigantic projects attractive to foreign capital. This deal reveals the maturity achieved by the Egyptian private enterprise."

Youssef Boutros Ghali
Minister of Economy



THE BRITISH AMBASSADOR'S QUOTATION

"It is a known fact that the multinationals hesitate before investing heavily in developing countries. What has happened lately in Egypt seems to have changed the rules. The investment climate has changed radically in Egypt thus attracting foreign capital. Glaxo was able to feel the changing winds early enough and thus decided widening its investment scope in Egypt."

Sir David Blatherwick
HM Ambassador in Egypt.

GLAXO'S INDIVIDUAL TEST

It is interesting to know that during that decade -1989 - 1999 between Glaxo's first deal and second, the British firm has put Egyptian economy its growth and stability, under strict surveillance and severe tests. It discovered that Egyptian market was able to consume a reasonable majority of its products. It also discovered that Egyptian technical expertise in the field of pharmacology which dates back to the early twenties, could easily assimilate new technologies, thus enabling Glaxo to export its new products to other Middle East and African markets.

DR. NEGAD SHAARAWI, CHAIRMAN AND MANAGING DIRECTOR OF GLAXOWELLCOME EGYPT, SAID:

"The growth of our company in Egypt and this further step towards building our business for the future is an excellent example of our continued commitment to regionalisation, a strategy that builds on regional diversity and the opportunities that are continually arising."

DR. SARWAT BASSILY, CHAIRMAN OF AMOUN PHARMACEUTICAL INDUSTRIES' COMMENT ON THE OCCASION :

"I personally consider Glaxo's deal with us a vote of confidence for the Egyptian Pharmaceutical Industry."

INTERNATIONAL INVESTING

Hong Kong Exchange Plays to Its Strengths in Showdown With Singapore

By Philip Segal
International Herald Tribune

HONG KONG — After an embarrassing spat with Singapore just a month ago, the Hong Kong Stock Exchange is suddenly adopting a far more positive outlook, playing to Hong Kong's natural strengths in the battle to retain its position as Asia's premier financial center outside Japan.

With a reputation as a somewhat provincial body catering mostly to small, local brokers unconcerned with Hong Kong's international image, the exchange got a wake-up call earlier this year, when Singapore's deputy prime minister took control of his country's effort to deregulate the financial sector and lure business from Hong Kong.

In the past three weeks, in an apparent effort to accentuate the positive instead of objecting to new, competing products launched by Singapore, the Hong Kong exchange has announced a flurry of initiatives designed to build on this city's proximity to China, as well as its tradition as one of the world's most outward-looking economies.

"They're wanting to internationalize more than they have in the past," said Stephen Gled-

hill, director of institutional marketing at Chase Asset Management in Hong Kong.

Frederick Au, senior vice president in the financial markets group at State Street Bank in Hong Kong, added: "They're trying to form a strategy plan to fight the competition from Singa-

por. These men represent the type of person Singapore is trying to lure away from Hong Kong; executives at large institutions with millions of dollars under management.

Teams of people from the Singapore Monetary Authority have been combing Asia and beyond, looking to attract financial institutions with a promise of fewer regulations than before, plus a series of financial incentives.

Hong Kong's riposte came quickly. In recent weeks, the stock exchange has announced:

- An alliance with the Nasdaq stock market in the United States, and possible cooperation projects with other exchanges. Hong Kong and Nasdaq will first merge their Internet sites, and will eventually experiment with dual listing of stocks.

- Plans to list Hong Kong and Chinese government debt on the market.

• New departments within the exchange dedicated to market and product development, and China development.

- Promises to improve company disclosure with a view to making the market a more attractive place both to list shares and to trade.

- A decision to publish free market information, although not live prices, on the Internet.

- A second board for smaller and medium-sized companies from Hong Kong, Taiwan or China that currently find it hard to raise funds.

The newest initiative, unveiled last week at the exchange's year-end briefing, was the plan to list bonds issued by Hong Kong and, more significantly in the longer term, China. The economy has held up better in China than in the countries that neighbor Singapore — Indonesia and Malaysia — and Hong Kong appears to have decided to play to its natural strength.

"Hong Kong's role increasingly will be as a financial center for China," said Stephen Taran, global head of sovereign credit research at Salomon Smith Barney. "That's a pretty bright future."

Mr. Taran said he expected the size of the

China bond market to grow in the years to come as Beijing begins to run deficits and needs to raise money to finance them. Listing debt in Hong Kong, he said, "is a great move, in that it really adds depth to the Hong Kong bond market, and it's a great opportunity for China to tap another source of capital."

While the financial sector appears happier with the new attitude at the stock exchange, Mr. Au at State Street cautioned that many of the initiatives are still at the announcement stage. In the case of Singapore and its new futures contract, which competes with Hong Kong, "they actually launched a new product," he said.

In contrast, Hong Kong has yet to name which stocks will be chosen for the dual listing with Nasdaq, and still does not have a firm date for the trading of either Hong Kong or Chinese government debt.

There is another major hurdle Hong Kong and the financial industry have to clear for relations to be truly smooth again.

Banks and mutual funds have loudly objected to a new rule introduced by Hong Kong's securities regulator in September to combat what officials saw as manipulation of the market by

international hedge funds. Under the rule, banks must disclose the ultimate ownership of company accounts before fund managers may take orders on behalf of the companies to buy stock.

Last week, an official of the Hong Kong Investment Funds Association, a grouping of mutual fund companies here, warned that investment business would be driven away to Singapore or elsewhere if the rule were rigidly enforced.

Companies registered in offshore tax havens are often the buyers of securities, but brokers often have no idea who ultimately controls those firms.

And the book is not yet officially closed on the Hong Kong stock exchange's fight with Singapore in November, in which the exchange threatened legal action against anyone providing stock prices that would support a new Hong Kong derivatives contract listed in Singapore.

The exchange's chief executive, Alec Tsui, still insisted last week on his right to control who sees live stock prices, but he drew back from promising further action on the matter.

"If I take any action, I will inform the media," he said.

Deadline for Tax Break Prompts Late Rush to Roth IRA

By Albert B. Crenshaw
Washington Post Service

WASHINGTON — After nearly 12 months of turning it over in their minds, thousands of American taxpayers inside the United States and abroad are calling their banks, brokers and mutual funds this week, rushing to get in on the latest tax break for ordinary wage earners before a Thursday deadline.

The cause of the stampede is a one-time opportunity that offers special tax treatment for savers who convert their individual retirement accounts to new Roth IRAs.

The Roth IRA allows individuals and couples to build nest eggs on which they will not pay taxes when they withdraw the money in retirement. There are many ways to create a Roth account, but a common problem involves converting money placed in standard IRAs into Roths. The opportunity to make a conversion that spreads out a punishing upfront tax hit over four years — courtesy of a law passed by Congress — has led thousands to deluge their brokers and

mutual fund managers with conversion requests this week.

"They waited," said Ellen Breslow of Salomon Smith Barney, "and now they are down to the wire." A quarter of the Wall Street firm's Roth IRA conversions have taken place in December.

The Roth IRA is just one of a long list of tax breaks Congress enacted last year, but it has special appeal for many middle- and upper-middle-income people. In addition to creating a tax-free investment, it is much more flexible than a regular IRA, requires no mandatory withdrawals beginning at age 70½, and creates estate-planning benefits.

The year-end attention to Roth IRAs is causing headaches for some banks, brokers, mutual funds and other account custodians across the country. Salomon Smith Barney and Vanguard, the big mutual fund company, say they are fielding an explosion of phone calls. Some firms, including Vanguard, have cut off conversions.

"We've had a tremendous last-minute rush" into Roths, regular IRAs and the new IRA, said Brian Mattes of Van-

guard, where investors are doing more than just calling: People are jamming the lobby of the firm's headquarters in Valley Forge, Pennsylvania.

"The best thing for the traditional IRA has been the Roth," Mr. Mattes said. "It has reawakened interest in traditional IRAs. People became intrigued by the Roth, looked at it and said maybe the traditional is better after all."

Individuals and couples earning more than \$100,000 a year are ineligible, placing the Roth IRA out of reach for many dual-income couples.

The Roth IRA owes its existence to Senator William Roth, Republican of Delaware, who is chairman of the Senate Finance Committee. Mr. Roth ensured that these accounts became part of the huge tax overhaul Congress enacted in 1997.

Standard IRAs are funded with annual contributions of up to \$4,000 for a couple, and in many instances they are tax-deductible. An account grows untaxed until retirement. Then, when withdrawals are taken, they are taxed at the individual's ordinary

income rate — which, presumably, is lower in retirement. Congress, however, wanted to ensure that these accounts would not be used as estate-planning vehicles, and so it required holders of standard IRAs to begin taking money out of the accounts at age 70½.

With a Roth, contributions are not deductible, but there is to be no further tax on the account if it is withdrawn after age 59½. There are no withdrawal requirements, so the money can more easily be left to heirs or allowed to further accumulate.

In addition to annual contributions, taxpayers can fund a Roth by converting a regular IRA and paying the taxes due.

With just days left before the deadline for conversion to a Roth, some brokerages and financial institutions are handling them but warn that they may not make the deadline.

Charles Schwab, the discount brokerage, set Dec. 22 as the deadline for assuring conversion but it has continued to process applications and said that it expected to get them done.

Still others are encouraging clients to make the switch if it is right for them.

Very briefly:

• Corporate mergers and acquisitions dominated business news in 1998, with \$4.98 trillion worth of deals logged by Securities Data Co. by last week. That was triple the \$1.6 trillion record set in 1997. But the number of deals, 11,002 as of Dec. 23, may fall short of the record of 11,156 in 1997.

• The London Stock Exchange said trading in international shares rose 52 percent, to \$2.195 trillion (\$3.68 trillion), from a year earlier, as more companies listed shares in London. Trading in British shares rose 2.2 percent to £1.035 trillion. Total capitalization of domestic and international markets stood at an end-of-year record, with British companies worth about £1.35 trillion and overseas companies about £2.73 trillion.

• Stein Roe & Farnham Inc. liquidated its struggling emerging markets fund last week, a fund that was introduced in February 1997. It was another sign that investment managers were abandoning poorly performing funds devoted to some of the world's riskiest stock markets. Diversified emerging market mutual funds are registering average losses of 29.87 percent through Dec. 25, according to Morningstar.

• European stocks are likely to gain in 1999, led by telecommunications stocks and drugmakers on optimism their earnings will rise, even as global economic growth slows, analysts said. Lower interest rates and speculation over takeovers and mergers in the financial services industry is also likely to bolster banks and insurers. "You'll see stable markets, although not gaining as quickly as in the last few years," said Miles Berryman of Coutts & Co. The introduction of the single European currency, the euro, on Friday, is expected to spur cross-border mergers.

Boston Globe, Bloomberg

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With Singa

Top JAL Shareholder Calls for Resignations

Bloomberg News

TOKYO—Japan Air Lines Co.'s largest shareholder has called for the resignation of President Isao Kaneko and for the company's board of directors to take responsibility for declines in revenue and profit at Asia's biggest airline.

Eitaro Itoyama, 56, who has said he owns 4 percent of the company, said Tuesday he made the demand to Akio Kouno, an executive vice president, this month.

"If the board members don't resign, I will hold an emergency shareholders' meeting," Mr. Itoyama said.

JAL said it had not received an official request from Mr. Itoyama although it had received some management advice from him.

Mr. Itoyama, named one of Japan's richest men in 1988 by Forbes magazine, said he had paper losses of 12 billion yen (\$102.5 million) from his investments in JAL, whose shares have fallen 68 percent over the past 30 months.

Mr. Itoyama said he now owned about 60 million shares. At Tuesday's closing price of 290 yen a share, that stake is worth about 17.4 billion yen. As of March 31, Mr. Itoyama owned 3 percent of the company, or 53.4 million shares, according to JAL.

South Koreans Meet on Chip Merger

Agence France-Presse

SEOUL—Two major South Korean chipmakers relaunched negotiations Tuesday on a merger, a day after banks cut off credit to one of the companies, LG Semicon Ltd., for rejecting a linkup.

An executive at LG Semicon said a meeting was under way with Hyundai Electronics Co. Ltd., but no details were available.

"The meeting is on. We will just have to wait for the outcome," the executive said.

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December 29, 1998

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Record Drop in Hong Kong GDP

Compiled by Our Staff From Agencies

HONG KONG—Hong Kong's economy shrank by a record 7.1 percent in the third quarter of 1998, compared with its level a year earlier, hurt by slack consumer demand, falling exports and a drop in investment spending, the government said Tuesday.

Economists said the drop in gross domestic product, the territory's biggest-ever quarterly contraction, was in line with expectations.

It was only slightly worse than preliminary estimates released in November, which showed a 7 percent contraction.

The third-quarter decline dwarfed the previous record—a

4.7 percent drop in July-September 1997—and marked the first time since at least the early 1960s that the economy had contracted for three straight quarters. The economy shrank a revised 2.6 percent in the January-March period and by a revised 5.1 percent in the April-June quarter.

Economists said they expected Hong Kong's economy to continue to decline in the fourth quarter and into 1999, but at a slower pace, partially due to interest-rate cuts and a stabilizing property market.

"This doesn't really change our reading of the Hong Kong economy," said Chi Lo, an economist at HSBC Holdings PLC. "Maximum stress on the Hong Kong

economy has already passed, but we won't see any signs of a recovery until the second half of 1999."

The government forecast that the economy would shrink 5 percent in 1998. A year ago, the Hong Kong economy was growing at an annual rate of 6.1 percent.

"Interest-rate cuts and stabilization in apartment sales will help, but unemployment is going to stay high, and consumption will stay weak," Mr. Lo said.

During the third quarter, consumer spending fell 10 percent compared with the previous year. Consumer spending had fallen 5.1 percent in the second quarter.

(Reuters, Bloomberg)

China Stiffens Foreign-Exchange Penalties

Compiled by Our Staff From Agencies

BEIJING—China will mete out life imprisonment to those convicted of major foreign-exchange infractions under a supplementary provision to the Criminal Law adopted Tuesday, the official Xinhua press agency reported.

The report did not spell out the magnitude of violations that would warrant the severe penalty adopted by the National People's Congress.

The provision stipulates life sentences for individuals convicted of purchasing foreign exchange with forged documents, evading payments or otherwise en-

gaging in illegal trade activities, "the report said. It also provides for violators to be fined as a concurrent punishment.

China has been cracking down on fraudulent foreign-exchange transactions, ordering enterprises to repatriate illegally acquired foreign exchange after an estimated \$30 billion flowed out of the country in the first half of the year.

The tough sentences were linked to approval Tuesday of a securities law. That act, which will take effect July 1, is intended to curb insider trading, listing fraud and theft of investor funds. (AFP, Reuters)

PAKISTAN: Fallout From Nuclear Tests Rocks Economy

Continued from Page 11

"After that, we'll be back with another begging bowl."

Many observers doubt that Prime Minister Nawaz Sharif, despite sweeping to power in 1997 with a large parliamentary majority, has the will to make the tough decisions necessary to resuscitate the economy.

There is no coherent long-term economic planning. Last month, Mr. Sharif changed his finance minister for the second time in three months, installing a political crony in place of a respected technocrat. Rather than tackling core problems of this aid-dependent country, the

prime minister often defies his financial patrons, such as he did with a decision to cut electricity tariffs that temporarily imperiled Pakistan's talks with the IMF.

Paralysis is setting in among the struggling construction and textile barons of Lahore. The textile sector accounts for about two-thirds of all exports, making it a vital source of hard currency for this debt-strapped country. Pakistan, the world's fourth-largest cotton grower, normally exports 77 percent of its production. Textile exports for the three months ending in September slumped 12.3 percent compared with a year earlier.

The economic fallout from the nuclear tests was the last straw for a textile industry already reeling from a succession of failed cotton crops at home and slack demand for cotton fabric from crisis-ridden East Asia. In the wake of the tests, banks at home require a 30 percent down payment before opening a letter of credit for the import of machinery and raw materials. Abroad, banks refuse to reconfirm letters of credit. Many industrialists say Mr. Sharif dealt a blow to his credibility and the economy when he imposed a blanket freeze on \$1 billion foreign-currency accounts to stem capital flight after the nuclear tests.

Investor's Asia

Hong Kong Hang Seng	Singapore Straits Times	Tokyo Nikkei 225
11,000	1,550	17,000
10,000	1,400	16,000
9,000	1,250	15,000
8,000	1,103	14,000
7,000	950	13,000
6,000	800	12,500
5,000	700	12,000
4,000	600	11,500
3,000	500	11,000
2,000	400	10,500
1,000	200	10,000
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Source: Telekurs

International Herald Tribune

Very briefly:

• South Korea had a current-account surplus of \$37.2 billion in the 11 months to November, compared with a deficit of \$11.7 billion for the year-ago period.

• Malaysia is to receive loans worth a total of \$1.35 billion from 12 foreign banks at a rate substantially cheaper than the price the government would have to pay to raise the cash by selling bonds.

• Taiwan is to ease the rules under which banks write off bad loans and may limit any expansion in the banking sector. Finance Minister Paul Chiu said: "We need to allow banks to write off bad loans quickly to strengthen them." Mr. Chiu said: "Under the new rule, banks will no longer need to go court to clear the bad loans."

• The Bank of Thailand said commercial banks' bad debts had soared to about 46 percent of total lending, prompting warnings that restructuring in the sector was far behind schedule. The central bank has set Jan. 15 as the deadline for Thai banks to raise fresh capital or face government intervention.

• Long-Term Credit Bank of Japan Ltd., which was nationalized in October, allegedly offered dividends to its shareholders this year despite having insufficient asset backing, according to a report in the daily Yonhap Shim bun. The Financial Supervisory Agency suspects the distribution of dividends may have been in violation of the law, the report said.

• American Express Co. has applied to establish a securities company in Japan next year.

V.F. AP/Bloomberg

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